

RPM Product Development Workshop

Regulation

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Disclaimers and Acknowledgements

- Many thanks to Patrick Causgrove who developed and presented earlier versions of this session.
- The views expressed in this presentation are those of the speakers at this point in time. These views are not necessarily identical to those of the CAS or the speaker's employer.

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**Insurance
Regulators
are
Stakeholders
in Your
New
Product**



Stakeholders

- The main test of whether a person is a stakeholder is whether or not they have veto power, or can otherwise prevent your work from launching.
- Internal versus External
- The Insurance Regulator

Agenda

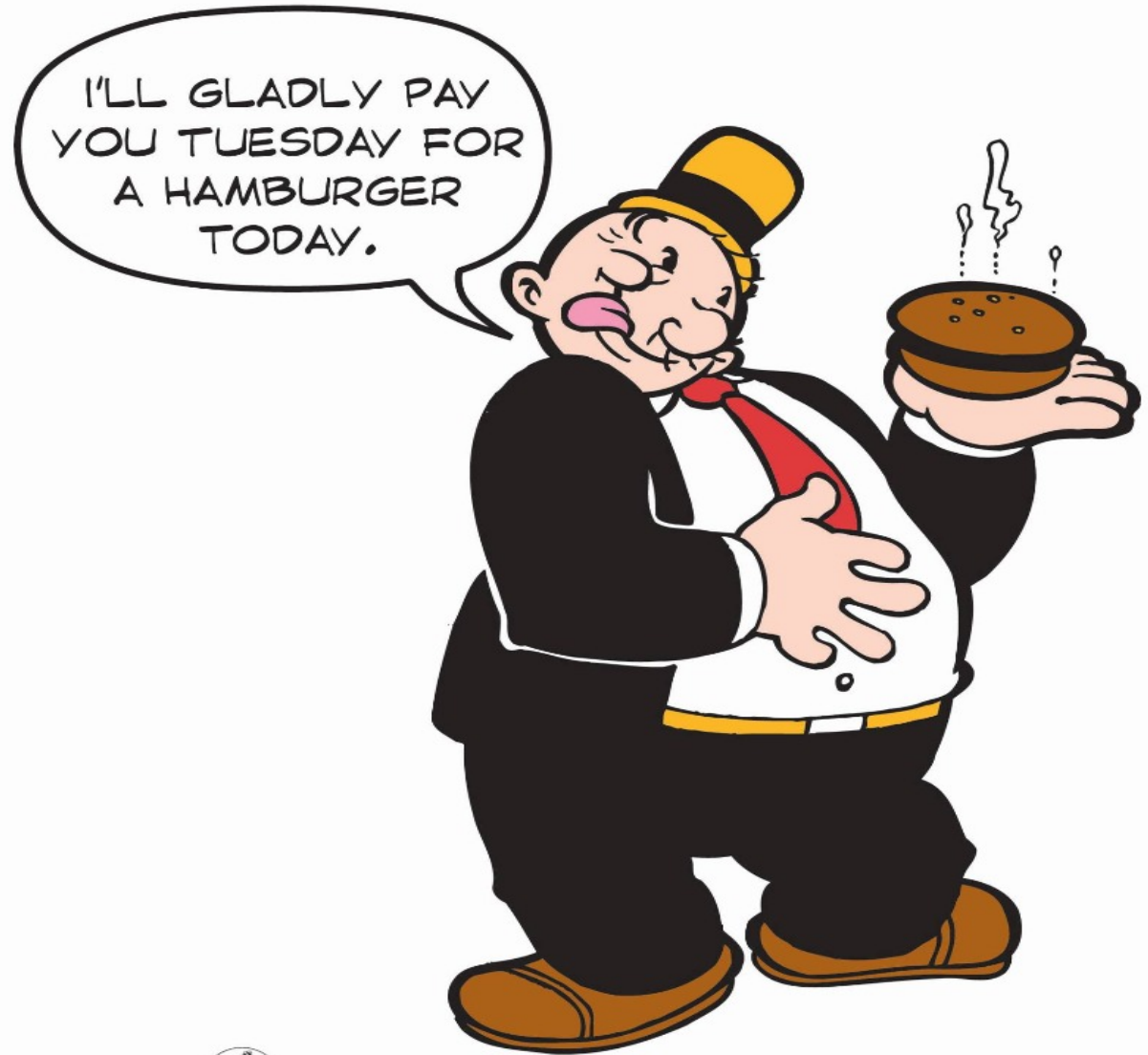
- How this fits into Product Development
- Purpose Of Regulation
- Issues Facing Regulators
- Issues when Working with Regulators
- Presentation of new Product and Regulatory Questions

Overview of Regulation

Purpose of Regulation

- Exists to
 - Protect insurance consumers & companies
 - Prevent insurer insolvency
 - Prevent Unfair discrimination
- An insurance product is a promise
 - Monitors those who are making promises

**Insurance
is a
Promise
You Don't
Want The
Company
to Have to
Keep.**



Regulatory Functions of DOI

- Licensing insurers
- Regulating coverage and pricing
- Conducting examinations
- Licensing producers
- Regulating claim adjusters
- Preventing fraud
- Determining the need for insurer receivership
- Providing consumer services
- Monitoring sales of insurance securities

Regulation Today

- Most notable factors influencing the development of modern insurance regulation:
 - Insurer insolvencies
 - Availability and affordability problems
 - Inequitable treatment of insurance consumers
 - Transparency, lack there of

The Commissioner

- Appointed or elected
- Duties include (but not limited to):
 - Organize and manage DOI
 - Execute duties of the insurance code
 - Enforce insurance code
 - Hold hearings
 - Take action when violations of law occurs
 - Issue annual reports

Licensing

- DOI must approve and license new insurers before they can write insurance coverages in a state
- The DOI will examine
 - Initial capital and surplus sources
 - Pro forma financial statements
 - Biographical affidavits of the insurer's proposed board members, officers, and key employees

Filing Laws

- Vary by state and line of insurance
- Vary by type of filing
 - Rate
 - Rule
 - Form
- General categories include:
 - State-mandated
 - Prior-approval
 - File-and-use
 - Use-and-file
 - No-file

Rate Regulation

- Most visible and controversial function of a regulator
- “Rates shall not be excessive, inadequate, or unfairly discriminatory”
- Widely divergent interpretations from state to state
 - Consumer complaints
 - Special interest lobbying groups (includes insurance companies)
- Three commonly ‘discussed’ themes
 - Whether the classification systems are appropriate
 - Whether provisions for profit are fair to consumers
 - Whether the rate loadings for catastrophic losses are adequate

Form Regulation

- DOI approval needed for:
 - Policy forms (both new and revised)
 - Insurance applications
 - Policy jackets
 - Declarations page
 - Policies and endorsements
- Form filing law can be different than that for rates
- Requirements regarding readability of insurance forms
- DOI's looking for:
 - Policy cancellation provisions
 - Loss reporting requirements
 - Claim settlement practices
 - Subrogation provisions
 - Fraud and dishonest definitions and penalties
 - Dispute resolution procedures

Solvency Regulation

- Arguably the most important activity regulators perform
- Frequent reviews of insurers' financial condition through analyzing statements filed with regulators and the NAIC
- Monitoring insurer policyholders' surplus to ensure adequacy and liquidity
- Risk based capital (RBC) requirements
- Periodic on-site financial examinations
- Move to ORSA

The Situation

- You want the regulator to approve your product filing
- The regulator would like to approve the filing and get it off their desk
- You know your product and company much better than the regulator
- They have more exposure to the various different industry practices
- The regulator has seen filings from numerous companies
- They know their state & their state's regulations better than you
- Your filing may be different than the “run of the mill” filing

Basics

- Regulators are constrained by the regulations
- Filings will most likely be submitted in SERFF, “System for Electronic Rate & Form Filing”
- Most communications will be through SERFF
 - Regulators share what they need to see to approve a filing
 - You present your product through SERFF
 - The communications becomes the public record

Ohio shares with Filers

General Information	Form Schedule	Rate/Rule Schedule	Supporting Documentation	State Specific	Companies and Contact	Filing Fees	Filing Correspondence	Schedule Item Status:
Expand All Collapse All								Filed 02/10/2015
⊖ Filing Requirements Summary - P&C								
Description								
TRANSMITTAL DOCUMENTS NOT REQUIRED - The information requested on the P&C Transmittal Document, Form Filing Schedule and Rate/Rule Filing Schedule have been built into SERFF. The Transmittal Documents are NOT required on SERFF filings. (Be sure to complete all Rate Data Fields on the Rate/Rule Schedule tab when making rate filings.)								
ALL FILINGS MUST COMPLY WITH THE FOLLOWING:								
1. ALL ATTACHMENTS MUST BE IN PDF FORMAT (cannot exceed 3 megabytes per attachment).								
2. ATTACH FORMS TO THE "FORM SCHEDULE" TAB and ATTACH RATE/RULE PAGES TO THE "RATE/RULE SCHEDULE" TAB. Attach everything else to the "SUPPORTING DOCUMENTATION" tab.								
3. CLEARLY IDENTIFY ALL CHANGES to forms, rules, rates and rating factors. FOR FORMS & RULES: Provide a detailed explanation, side-by-side comparisons, or mockups showing all changes. FOR RATES & RATING FACTORS: Provide exhibits comparing current to proposed rates and/or rating factors. ***IMPORTANT NOTE*** - For public record purposes, and ease of review, comparison documents must be in a .pdf format that clearly displays all changes in a printable format when using PDF Pipeline. It is not necessary to identify changes such as font, spacing, page movement, etc.								
4. PROVIDE ACTUARIAL SUPPORT FOR PROPOSED RATES (NEW OR REVISIONS). Support should consist of actuarially sound exhibits and analysis, which may include analysis of identified competitors' rates, rating plans and filings.								
5. PROFIT & LOSS STATEMENTS - Rate revisions should include the Property and Casualty Profit and Loss Statement, INS 4012 (copy in General Instructions), unless the information is provided in a similar format within the filing. Submit data for each company on both an Ohio and Countrywide basis. For Personal Auto, submit the data for Liability and Physical Damage coverages separately.								
6. LOSS COSTS & LOSS COST MULTIPLIERS - If filing new or revised loss cost multipliers, submit Loss Cost Exhibits A and B. (Copy in General Instructions.)								
7. PREMIUM BEARING FORMS & ENDORSEMENTS - If filing new premium bearing forms or endorsements, submit corresponding rates/rules. If filing rates/rules for new forms or endorsements, submit the corresponding forms. Whenever possible, submit forms, rates and rules in a single filing. ACTUARIAL SUPPORT for proposed rates is required.								
8. Companies must file every policy form and endorsement. This includes applications, declarations pages and the cancellation/nonrenewal notice forms mailed to the insured to cancel or nonrenew a policy.								
BY LAW, ORC 3935.04(A) and 3937.03(A), A FILING AND ALL SUPPORTING INFORMATION SHALL BE OPEN TO PUBLIC INSPECTION AFTER THE FILING BECOMES EFFECTIVE. Nothing in the filing may be treated as confidential or proprietary. Complete the State Specific Field acknowledging your understanding of this fact.								
Comment								
Acknowledged								

The Filer Shares with Us

Tracking Number: [Search](#)

Filings

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Filing Company [REDACTED] **SERFF Tr Num:** [REDACTED]
TOI: 17.0 Other Liability-Occ/Claims Made **SERFF Status:** Closed-FILED
Sub-TOI: 17.0004 Contractual Liability **State Tr Num:** [REDACTED]
Filing Type: Form/Rate/Rule **State Status:** FILED
Assigned To: Valerie Baader (primary), Tom Hess **Co Tr Num:** [REDACTED]
Date Submitted: 11/24/2014 **Disposition Date:** 02/10/2015

[General Information](#) | [Form Schedule](#) | [Rate/Rule Schedule](#) | [Supporting Documentation](#) | [State Specific](#) | [Companies and Contact](#) | [Filing Fees](#) | [Filing Correspondence](#)

Filing Method: File & Use
Rate Change Type: Neutral
Overall Percentage of Last Rate Revision: 0.000 %
Effective Date of Last Rate Revision:
Filing Method of Last Filing: New

Company Rate Information							
Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	Number of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where required):	Minimum % Change (where required):
[REDACTED]	0.000 %	0.000 %	\$0.00	0	\$0.00	0.000 %	0.000 %

Item No.	Schedule Item Status	Exhibit Name *	Rule# or Page #:	Rate Action *	Previous State Filing Number:	Attach Document:	Submitted:
1	Filed 02/10/2015	Manual of Rates & Rules GAP Program	GAP-TIC-RATE-RULE-CLIP (11-14)	New		GAP-TIC-RATE-RULE-CLIP (11-14).pdf	Date Submitted: 11/24/2014 By: Karen Work
2	Filed 02/10/2015	Ohio Exception Page	Ed. 11/14	New		OH Exception Page - Rates 11.14 rev2.15.pdf	Date Submitted: 02/09/2015 By: Iris Cruver
Previous Version							
	Superseded/Withdrawn 02/10/2015	Ohio Exception Page	Ed. 11/14	New		OH Exception Page - Rates 11.14.pdf	Date Submitted: 01/16/2015 By: Iris Cruver

Icon Legend: Draft Schedule Item Open Objection

[PDF Pipeline](#)

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Issues Facing Regulators

Issues Facing Regulators, Part I

- Staffing
 - Usually never enough credentialed (if any) actuaries
- Massive number of filings
 - How to decide which ones to really get in-depth on versus just peripheral review or reliance on the filing forms?
 - How do you maintain consistency in reviewing all the filings?
- Deemer provisions
 - Acts as a ticking clock to get review done in time before the insurer can simply deem a filing approved

Issues Facing Regulators, Part II

- Reviewers are different between rates, rules and forms
 - How to coordinate the reviews for consistency and understanding
- Intervention of consumer watchdog groups
 - Added stress for more review
 - Complicated if regulatory opinion differs from watchdog
- Review of rates and forms may get political
 - Actuarial review may suggest rates are appropriate, but it is ultimately up to the commissioner as to what gets approved
 - Company may select less than indication, much less

Issues Facing Regulators, Part III

- Each filing looks different
 - Managing through the different styles and levels of support can prove to be challenging
 - Leads to lots of questions given back to the insurer
- Pricing sophistication has taken over
 - How do you effectively regulate a GLM?
 - Key variables may be statistically sound, but don't make sense (no causal relationship)
 - DOI budgets don't often allow for much continuing education opportunity, so regulators may need more time to absorb advances in pricing sophistication

Issues Facing Regulators, Part IV

- Public heat
 - Cries of redlining and availability issues
 - Price increases are unpopular
- Commissioner heat
 - It could be an election year
- Legislative heat
 - DOI could be called to ask for data calls or testify on insurance matters
 - Size of residual markets may be getting out of control
- Insurer heat
 - Going to a time and labor-intensive rate hearing
 - Insurers based in the state

Issues When Working with Regulators

Issues When Working with Regulators, Part I

- How much detail do you include in the filing?
 - Do you meet with the DOI beforehand?
 - Do you put minimal support in to see if they ask questions?
 - Do you use the filing to educate the DOI?
 - Competitive concerns
- Does your company have existing filings pending in the DOI?
 - Do they contain the same level of support?
 - Do the filings complement one another or contradict one another?

Issues When Working with Regulators, Part II

- Do you understand any “desk drawer rules”?
 - Policyholder impacts
 - Profit provision
 - Geographic rating
- Have you followed the published rules?
- Understanding the burden of proof
 - If it is your duty to prove that rates are not inadequate, not excessive, and not unfairly discriminatory, how do you prove that?
 - Rate filing is an actuarial communication

Issues When Working with Regulators, Part III

- What is the current political situation in the state?
 - Do you raise rates along the coast right after a major hurricane?
 - Do you ask for a large rate increase months before an election for commissioner?
- What is Plan B?
 - If you get outright disapproval, what is the rate hearing process?
 - Many times, the commissioner can be the judge in a rate hearing

Issues When Working with Regulators, Part IV

- Do you have an exit strategy?
- How much can you rely on an approved competitor rate filing?
 - Will the DOI hold you to a different standard to support a rating variable?
- Timing of the rate filing and accompanying form filing
 - Form filing usually takes longer
 - Disputes on the forms side are not easily resolved

Issues When Working with Regulators, Part V

- Have you considered these three broad themes?
 - The appropriateness of your classification system
 - Correlation vs. causal relationship
 - GLMs
 - Impacts on sensitive groups
 - Profit provision
 - Is the return on equity underlying the profit provision supported?
 - Excessive profits statutes or claims
 - Rate loadings for catastrophic losses
 - What models are you using?
 - Impacts along the coasts or fault lines
 - Reinsurance

Q&A With Teams

Welcome to Volunteer Insurance
with its chief actuary,
Thomas G. Hess