



RP-7

- Recent Developments and Common Pitfalls in Property and Casualty Rate Filings

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- Alabama Department of Insurance



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Outline of Presentation

Section 1 Summarizing what was originally passed (and why) regarding by-peril H.O. rating in Alabama

Section 2 Problems in 2017

Section 3 Anticipated problems/issues in 2018




Section 1

- What was passed and why



By-peril rating begins in Alabama Homeowners

Alabama Insurance Regulation Chapter 482-1-152 became law October 3rd, 2013, over 4 years before it's initial implementation date of January 1, 2018



In 2013 legislation was passed mandating that beginning January 2017 all HO rates in the state of AL would be by-peril -- at the very least, they would be split into no fewer than 3 premium components



Change to Due Dates

Initially the by-peril rating for Homeowners, Tenants and Condos was due January 1, 2017.



Section 2

- Problems in 2017



How did the 2017 problem begin?

- Procrastination
- Incomplete reading of the law
- Why did this happen?



- INSURANCE REGULATION: CHAPTER
482-1-152

482-1-152-.01 “what” is changing and how (generally)

482-1-152-.01 Purpose. The purposes of this chapter are to require that rate filings for specified classes of personal lines property insurance set forth separate rates for hurricane coverage, all other wind/hail coverage, and all other perils; that such rates be actuarially supported and filed and approved before use; and that the separate premiums for hurricane coverage, all other wind/hail coverage, and all other perils coverage be prominently displayed on a document in a manner approved by the department.



A lesser point (but a key one)


..... and that the separate premiums for hurricane coverage, all other wind/hail coverage, and all other perils coverage be prominently displayed on a document in a manner approved by the department.

Then a different direction

- **482-1-152-.02 Authority.** This regulation is adopted on the authority of Ala. Code§ 27-2-17,
- 27-13-1 *et seq.*, 27-14-8 through 27-14-11(1975).
- **Authority:** Commissioner of Insurance
- **Statutory Authority:** Ala. Code§§ 27-2-17, 27-13-1 *et seq.*, and 27-14-8 through 27-14-11 (1975).
- **History:** New September 23, 2013; Effective: October 3, 2013


More statements unrelated to the “how”

- **482-1-152-.03 Applicability.**
- (1) This chapter applies to all insurers authorized to transact the property line of insurance in Alabama.
- (2) The requirements described in this chapter apply to the following classes of personal lines property insurance: homeowners and renters/tenants; condominium (unit owners); and dwelling fire and extended coverage.

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- (3) Implementation dates are as specified in the following rules.
 - **Authority:** Commissioner of Insurance
 - **Statutory Authority:** Ala. Code §§ 27-2-17, 27-13-1 *et seq.*, and 27-14-8 through 27-14-11 (1975).
 - **History:** New September 23, 2013; Effective: October 3, 2013


Some fairly obvious clarifications

- **482-1-152-.04 Definitions**. The following definitions apply for purposes of this chapter:
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 - (1) Hurricane coverage. Coverage for protection against wind/hail losses caused by a hurricane.
 - (2) All other wind/hail coverage. Coverage for protection against all other wind/hail losses not caused by a hurricane.

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- (3) All other perils coverage. Coverage for protection against all losses except those caused by (1) and (2) above.
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 - **Authority:** Commissioner of Insurance
 - **Statutory Authority:** Ala. Code §§ 27-2-17, 27-13-1 *et seq.*, and 27-14-8 through 27-14-11 (1975).
 - **History:** New September 23, 2013; Effective: October 3, 2013


Back to the “how” (first touched on by 152-.01)


- **482-1-152-.05 Requirement for separate rates by peril in rate filings.** All property rate filings must provide property rates (including rating factors, rate or premium credits or surcharges, or rating tiers) for the basic policy separately for hurricane coverage, all other wind/hail coverage, and all other perils coverage in accordance with the implementation dates provided in this chapter.

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- The approved rates (including rating factors, rate or premium credits or surcharges, or rating tiers) must be displayed separately in the documentation of the insurer's class plan in like manner for these types of coverage. Insurers may further subdivide the "all other perils" into additional perils for rating purposes if they so desire. Rates for additional coverages, voluntary endorsements, or policy limits changes (other than coverage limits for dwelling or personal property, or changes in deductibles) are not required to be separated by peril.

482-1-152-.06 Requirement for filing and approval and actuarial support.

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- (1) The requirements of this rule apply to all homeowner, renters/tenants, and condominiums (unit owners) rate filings within the scope of this chapter made to the Department to be effective on or after January 1, 2018. All such rate filings shall be made on or before June 1, 2017.
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- (3) All rating factors, rate or premium credits or surcharges, or rating tiers utilized in the premium calculation must be filed, approved, and applied separately for hurricane coverage, all other wind/hail coverage, and all other perils coverage.

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- Rates for additional coverages, voluntary endorsements, or policy limits changes (other than coverage limits for dwelling or personal property, or changes in deductibles) are not required to be separated by peril. Filing and approval must occur before use.
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 - (4) All rating factors, rate or premium credits or surcharges, and rating tiers must be actuarially supported.

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- We didn't always get what the Legislation was asking for.



I had to send an email to many insurers:

- If you refer back to our By-Peril Rating Regulation, it states that not only rates have to be separated by peril, but also appropriate rating factors must be established separately by peril. Some rating factors apply to all other perils but not to hurricane or other wind/hail exposure, so factors should be different by peril.




Our stance was not unreasonable

- Please understand that for rating discounts or surcharges that were formerly all-peril factors, the new by-peril factors must make sense -- even if further analysis or data collection is required to improve them.



Our request was this

- For a typical insured (you choose) please send us each of the 3 (or more) by-peril premiums for an insured in A) Gulf Shores B) Bay Minette C) Montgomery D) Birmingham E) Huntsville. Please send these for a typical insured and to the extent possible pick 5 locations that have the same (or as similar as possible) Fire Protection Grade.

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- For each of these 5 locations for the typical insured (that you chose) please send us the vector of factors that contributed to the final premium -- for each individual peril. Please ensure that each component of the vector is clearly labeled with it's full (long) English label, not an acronym or computer code short form.



Issues for 2018 and forward

Concerns we have

- Many filings included Amount of insurance factors that did not differ by-peril. The I.S.O. by-peril filing clearly shows they do.



More concerns

- And --- we are also striving toward Homeowners Rates that are explainable from a geographical point of view.

More concerns

- And --- we are also struggling with correlations between the 3 different perils



THE END