

**Washington Rate Filings**  
*From Initial Filing submission to Approval*

May 17, 2016



OFFICE of the  
**INSURANCE**  
COMMISSIONER  
WASHINGTON STATE

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## Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.




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[WAC 284-24-065\(1\)](#)

When an insurer or rating organization files rates with the commissioner, it must demonstrate that the proposed rates satisfy the requirements of chapter [48.19](#) RCW. RCW [48.19.020](#) requires that premium rates for insurance are not excessive, inadequate, or unfairly discriminatory. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer. Such costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital.



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Methods described under [WAC 284-24-065](#)

1. The "operating ratio" method
  - WAC 284-24-065(2), -(4), and -(5)
2. The "rate of return" method
  - WAC 284-24-065(6)

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[WAC 284-24-065\(2\)](#)

For the purposes of this section, "operating ratio" means **the sum of after-tax underwriting profit (or loss) and after-tax investment income on assets corresponding to unearned premium reserves and loss and loss adjustment expense reserves**, divided by premium.

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[WAC 284-24-065\(4\) and -\(5\)](#)

The commissioner will not consider rates excessive if the expected operating ratio corresponding to the proposed rate level is **less than or equal to five percent**.

The commissioner will not consider rates inadequate if the expected operating ratio corresponding to the proposed rate level is **greater than or equal to zero**.

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WAC 284-24-065(6)

When an insurer, advisory organization, or rating organization files rates for which the **expected operating ratio corresponding to the proposed rate level is less than zero or greater than five percent**, it must demonstrate that the proposed rates are consistent with the principles stated in subsection (1) of this section. In other words, the insurer or rating organization must show how it has accounted for all expected costs, including claims, claim settlement expenses, operational and administrative expenses, and the **cost of capital**.

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Relationship between profit and ROE

$$\text{profit} = \frac{\text{ROS} - \text{i.i. on surplus}}{\text{premium/surplus ratio}} - \frac{\text{i.i. on reserves}}{1 - 0.35}$$

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RCW 48.19.035(1)(d)

“Insurance score” means a number or rating that is derived from an algorithm, computer application, model, or other process that is based in whole or in part on credit history.

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WAC 284-24A-035

Actuarial analysts will review the model to determine whether it complies with Title 48 RCW. The scope of the review will include whether the model includes:

- (1) Any prohibited factors; and
- (2) Attributes that may result in unfair discrimination.

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WAC 284-24A-050(2)

An insurer must provide a general description of the model used to perform the multivariate analysis, including the:

- (a) Formulas the model uses;
- (b) Rating factors that are included in the modeling process; and
- (c) Output from the model, such as indicated rates or rating factors.

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Multivariate Analyses: Key Items Reviewed

- Data
- Insurance Scoring Model
- Credibility
- Curve Fitting

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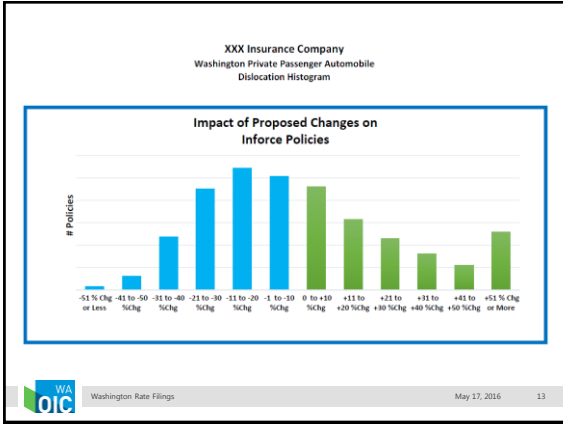
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### Streamline Filings and Common Pitfalls

- Two questions:
  1. What are you proposing?
  2. How is it supported?
- Confidentiality
- Rate Capping
- Obfuscation

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[RCW 48.19.040\(2\)](#)

Every such filing shall indicate the type and extent of the coverage contemplated and must be accompanied by **sufficient information** to permit the commissioner to determine whether it meets the requirements of this chapter. An insurer or rating organization shall offer in support of any filing:

- (a) The experience or judgment of the insurer or rating organization making the filing;
- (b) An exhibit detailing the major elements of operating expense for the types of insurance affected by the filing;
- (c) An explanation of how investment income has been taken into account in the proposed rates; and
- (d) Any other information which the insurer or rating organization deems relevant.

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RCW 48.19.040(1)

Every insurer or rating organization shall, before using, file with the commissioner **every classifications manual, manual of rules and rates, rating plan, rating schedule, minimum rate, class rate, and rating rule, and every modification of any of the foregoing which it proposes.** The insurer need not so file any rate on individually rated risks as described in subdivision (1) of RCW [48.19.030](#); except that any such specific rate made by a rating organization shall be filed.



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WAC 284-24-130(1)

This section prescribes standards that apply to insurers' rate stability rules, which are also sometimes called "transition rules" or "premium-capping rules." For the purposes of this section, a "rate stability rule" means a rating rule created by an insurer to limit premium changes experienced by policyholders due to the insurer's:

- (a) Revision of its own rating plan;
- (b) Acquisition or planned acquisition of a book of business from an unaffiliated insurer; or
- (c) Moving or receiving business from an affiliated insurer.



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Definitions from ASOP 41

2.1 **Actuarial Communication**—A written, electronic, or oral communication issued by an actuary with respect to actuarial services.

2.4 **Actuarial Report**—The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to the intended user.

2.7 **Intended User**—Any person who[m] the actuary identifies as able to rely on the actuarial findings.



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### Discussion questions

Is any part of a P&C rate filing an actuarial communication or actuarial report? Or is it no longer an actuarial communication when a non-actuary submits the filing?

Am I as the regulator an intended user? Or is the intended user only the company employee (product manager?) who reviews the actuarial work and decides what will be submitted as a rate filing?



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### Discussion questions

Should P&C rate filings generally include a signed actuarial memorandum prepared in accordance with ASOP 41? Is this what your company does? Why or why not?



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### Future questions?

Rates & Forms Help Desk  
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