



OFFICE OF INSURANCE REGULATION

COMMERCIAL RATE FILING PROCESS

Presentation to the
Insurance Committee of the
Florida House of Representatives
March 24, 2008



Filing Flow

- Filings Reviewed from 2 Perspectives:
 1. Technical Compliance- Are required forms and interrogatories filled out correctly?
 2. Actuarial Compliance- Are the calculations of the rates done fairly, documented fully, and explained so we can understand the calculations and the rate impacts?



Filing Flow-Technical Compliance

– Basic Facts/Interrogatories

- Is correct line of business, type of filing (Use and File?) claimed in filing?
 - Some companies claim they have indivisible property and liability rates, but then show separate rates in their manual.
- Is the Company making their rates on their own (independent filing) or is it rating organization-based?
 - Companies sometimes file loss cost modifier for rating organization rates as independent filing.



Filing Flow-Technical Compliance, Continued...

- Basic Facts/Interrogatories (Cont.)
 - If the company claims most insureds are not affected by the filing, is that true?
 - Typical error is to say that a new program doesn't affect any insureds because it is new; although it will affect all future insureds.
 - If they say no rates are in the filing, are there actually rates in the filing anyway?
 - Companies sometimes include rates or rating factors for use with new rating rules as rules filings, but say the filing is not a rates filing.



Filing Flow-Technical Compliance, Continued...

- Expenses added in
 - Do they reflect the company's costs?
 - Are they consistent with Florida law?
 - Is the profit load consistent with Rule 69O-170.003 F.A.C.?
 - For commercial property, must use 3.3% (or less) profit load or perform the special prescribed calculations to get alternate profit load.
 - Is the premium tax amount right?
 - 1.75% or retaliatory tax
 - No inclusion of guaranty fund assessments - they require separate recoupment filings



Filing Flow-Technical Compliance, Continued...

- Are the rate support items attached?
 - Loss cost modification factor-loss cost workbook
 - Some companies send back a blank workbook.
 - Some fill out the workbook most of the way, but leave out the loss cost modifier they want.
 - Independent filing- rate indications workbook
 - Again, we sometimes get blank workbooks and blank entries for the rate changes companies want.
 - For either, are the specific actuarial support items – e.g., backup support on inflation factors included?
 - Some send the workbook, but not the required backup support on how they got the numbers to put in the workbook



Filing Flow-Technical Compliance, Continued...

- Is our rate collection system (RCS) completed properly?
 - Is their RCS set up to reflect the tiering structure, territories and classes they use?
 - Some companies have 6 pricing tiers, but at first blush just set up RCS so it only shows the main tier.
 - Are the premiums shown for each tier completed and accurate?
 - Sometimes, companies use the wrong factor (i.e., not the one they are filing) to compute the premiums
 - Sometimes they do not rate the risk we ask them to, but rather use a different risk (e.g., for auto a tow truck instead of a Toyota Avalon)
 - Has the company completed the rate change portion of the system?
 - We do not yet have a lot of companies that have done this, so we don't presently know what the typical errors will be.



Filing Flow-Actuarial Compliance, Continued...

- Ensure filed rates are adequate, not excessive, and not unfair discriminatory.
- Ensure filed rates and rules are in compliance with existing Florida Statutes and Administrative Codes.
- Check whether calculations are done in a statistically unbiased manner and whether there is proper actuarial support.
- Support comes in two forms, supporting calculations and explanation of how calculations work.



Filing Flow-Actuarial Compliance, Continued...

- Basic Actuarial Review
 - Explanation of how calculations work: Explanatory Memorandum and/or Actuarial Memorandum fully explains all the changes being proposed and the methodology used to derive the proposed rates.
 - Rule 69O-170.0135 F.A.C. outlines the format of the Actuarial Memorandum.



Filing Flow-Actuarial Compliance, Continued...

[690.170.0135](#) Actuarial Memorandum

(1)(a) An actuarial opinion and memorandum supporting the opinion shall state that the rates are not excessive, inadequate, or unfairly discriminatory and comply with the laws of this state.

(b) If the opinion cannot be given, a complete explanation of the reason or qualifications shall be provided.

(c) If the opinion and memorandum are prepared by a different individual from the person who prepared the prior filing, an explanation of the reason for this change shall be provided.

(2)(a) The memorandum, along with any required online data and rate submission material, shall support and document the basis of the opinion.

(b) It is not necessary to repeat, within the memorandum, any data that has been submitted through the online collection system, however, the memorandum shall so indicate and shall provide any necessary explanation.

(c) If an insured, in addition to the completion of the required rate indications component of the I-File System, chooses to develop the proposed rates by using data or a method that is different from that which underlies the rate indications component of the I-File System, the memorandum shall contain detailed documentation and development of the method, assumptions proposed rates detailed documentation that the method is consistent with generally accepted reasonable actuarial techniques.



Filing Flow-Actuarial Compliance, Continued...

Excerpt from Sample Filing Memorandum:

Commercial-Residential Rates/Rules

INITIAL FILING

UICNA is hereby submitting its initial rate/rule filing for a new Florida commercial residential program. The program is designed to provide coverage for condo associations, apartment buildings and HOA's. It is designed to target smaller accounts within these classes with a maximum building limit of \$10m. Our review of the market has shown that there is a significant need for an admitted Florida program for this business.

Because UICNA has no company-specific experience in this program on which to base rate/rules the company has developed its program based on a review of a similar program of a peer company – specifically American Strategic Insurance Corp (ASI). The proposed rates and rules are based heavily on those currently filed and approved for ASI. We have filed the associated policy forms and endorsements separately and they are pending approval as of the date of this filing. We are requesting an effective date of 01/01/2008 for these rates and rules so we can begin marketing the program as quickly as possible.



Filing Flow-Actuarial Compliance, Continued...

Excerpt from Sample Filing Memorandum:

Nearly all of the proposed rates and rules for UICNA are a “me-too” of those currently approved for ASI. A copy of the ASI manual is included with this filing. Deviations from the ASI program are detailed below with corresponding explanations and/or reference to supporting documentation:

1. Deductible – the UICNA base deductible is \$2500/3% instead of \$1000/3%. All related rates and factor relativities have been adjusted accordingly. Specifically we adjusted the relativities for the optional deductibles so that $\$2500/3\% = 1.000$ and the building/contents base rates.
2. Ineligible Risks – these rules were added to the UICNA program. These were derived primarily from the CPIC commercial-residential program and represent excessive exposures not contemplated in the UICNA rate structure.



Filing Flow-Actuarial Compliance, Continued...

Catastrophe Costs:

- Commercial Residential Risks – Model must be supported per S. 627.0628 F.S. A public model is currently under construction for these risks.
- Commercial Non-residential Risks – Company must provide full support on why the particular model is chosen and what are the characteristics of the model (such as long-term frequency, inclusion of demand surge, inclusion of storm surge)
- At present, no commercial hurricane models have been accepted by the Commission.
- The OIR rules allow companies to use approved ISO hurricane loss costs as a baseline for the hurricane loss costs in their filings. [50 years avail.]



Filing Flow-Actuarial Compliance, Continued...

- Reinsurance Costs
 - Do the actuarial assumptions match the company's reinsurance treaty terms?
 - Companies sometimes do not reflect profit commission or return of premium in non-hurricane years that reduce the true cost of the reinsurance
 - Do the business assumptions used in costing the reinsurance make sense?
 - One company projected the cost of their reinsurance as if their business was flat, but projected the premium that supported the cost at a 65+% reduction.



Filing Flow-Actuarial Compliance, Continued...

- Reinsurance Costs (Cont.)
 - Are copies of the contracts enclosed?
 - Reading the reinsurance contracts is absolutely critical to understanding the reinsurance, but companies submit them password protected, in hard copy or on CD instead of through I-File.
 - Sometimes we discover the reinsurance, or portions of it, was never completely purchased.
 - Is appropriate recognition given to the current terms with the Florida Hurricane Catastrophe Fund?
 - This was especially important with the “TICL” layer in the presumed factor and presumed factor true-up filings