

**Presentation of Steven G. Lehmann
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**Property/Casualty Ratemaking
and Regulatory Practices**

NAIC IMPROVEMENTS TO STATE-BASED
SYSTEMS WORKING GROUP

August 13, 2001

American Academy of Actuaries

The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial Standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

Topics

- P/C Ratemaking – Actuarial Principles and Standards of Practice
- Actuarial Discipline Process
- Regulatory Rating Practices
- Comparison of Illinois and California

Ratemaking – Actuarial Principles and Standards of Practice

- Statement of Principles Regarding Property
and Casualty Insurance Ratemaking



Ratemaking – Actuarial Principles and Standards of Practice (cont'd)

Standards of Practice Dealing With Ratemaking

- *No. 9 Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuation*
- *No. 13 Trending Procedures in Property/Casualty Insurance Ratemaking*

Ratemaking – Actuarial Principles and Standards of Practice (cont'd)

- *No. 23 Data Quality*
- *No. 29 Expense Provisions in Property/Casualty Insurance Ratemaking*
- *No. 30 Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*

Ratemaking – Actuarial Principles and Standards of Practice (cont'd)

- *No. 39 Treatment of Catastrophe Losses in
Property/Casualty Insurance Ratemaking*

What Guidance is provided by the Ratemaking Principles and Standards of Practice?

- Actuarial Meaning of the Terms “Not Excessive, Inadequate or Unfairly Discriminatory”
- Considerations which Apply to Ratemaking

What Guidance is provided by the Ratemaking Principles and Standards of Practice?

- Generally Accepted Methods for
 - Trending
 - Expenses
 - Catastrophes
 - Profit and Contingencies
- Documentation and Disclosure Guidelines

What Guidance is provided by the Ratemaking Principles and Standards of Practice?

- If There is a Conflict Between Standards and State Laws, the Actuary Should Follow the State Law

Actuarial Discipline Process

- The Code of Professional Conduct
- Qualification Standards
- The Actuarial Board for Counseling and Discipline
- Discipline Process Overview



Regulatory Rating Practices

- Lack of Uniformity State-to-State
- Practices Generally Follow Type of Rating Law
- Some State Regulatory Practices Facilitate Speed - to-Market
- Some State Practices Inhibit Speed-to-Market

Regulatory Practices Which Facilitate Speed-to-Market

- Streamlined Filing Forms
- Electronic Filings
- Filing Requirements and Forms on Website
- Contact Person at Insurance Dept. for Filing Questions



Regulatory Practices Which Facilitate Speed-to-Market – (cont'd)

- Efficient Rate Review Process
- Adequate Department Staff
- Efficient Rate Manual/Filing System
- Filing Log Published



Regulatory Practices Which Inhibit Speed - to - Market

- Voluminous Filing Forms
- Lack of Uniformity State-to-State
- Lengthy Review Process
- Regulatory Constraints that Deviate from Cost-Based Pricing

Regulatory Practices Which Inhibit Speed - to - Market

- Inadequate Insurance Dept. Staff
- Proprietary Information Concerns
- Inefficient System of Organizing Filings
and Rate Manuals

Rating Law and Rate Review Process CALIFORNIA

- Prior Approval
- Extensive Filing Forms
- Standard Ratemaking Method for Review
- Efficiency Standards for Expenses
- Expense Exclusions

Rating Law and Rate Review Process CALIFORNIA - continued

- On-line Log of Filings
- Prescribed List of Rating Factors for Auto Insurance
- Right to Rate Hearing for Filings Exceeding 7%
- Minimum Average Time from Filing Date to Approval Date: 60 days Rate Change, 90 Days Class Plan

ILLINOIS

- No Rating Law
- Company Manuals Filed for Information
- No Filing Forms Except Rate Examples
- Relies on Competition to Regulate Rates

ILLINOIS - continued

- Frequent Filings (Up and Down)
- Average Time from Filing to Effective Date of Rates: 0 Months

Possible Filing Improvements

- Rate Manuals and Filings Easy to Obtain
- Filing Log Maintained and Published
- Efficient Website with Filing Forms and Procedures
- More Uniformity in Website Design/Filing Information Location

Possible Filing Improvements Cont'd

- Uniformity in Filing/Transmittal, Filing Forms, Acceptable Ratemaking Methods
- Samples of Acceptable Filings
- Rate Examples on Website
- Electronic Filings Facilitated