

Rate Regulation


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HISTORICAL DEVELOPMENT OF RATE REVIEW

IMPETUS OF McCARRAN-FERGUSON ACT

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- Regulation of rates and forms advanced slowly until 1945 when the McCarran-Ferguson Act was passed.

- McCarran-Ferguson declared that the continued regulation and taxation of the business of insurance by the states was in the public interest.



- The insurance industry was exempt from federal anti-trust laws to the extent that the business was “regulated by state law.”

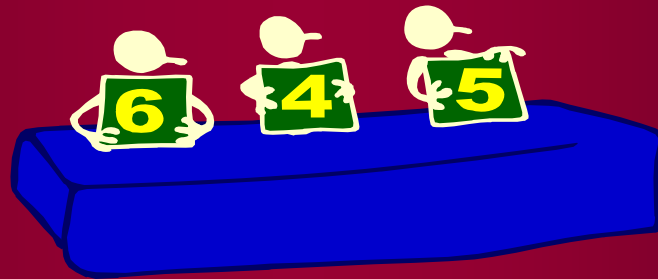
- In response to the McCarran Act, in 1946 the NAIC developed a series of all-industry model laws.



- These first laws were adopted and provided for the “prior approval” of all insurance rates by state regulators.

“OPEN COMPETITION” IN THE SIXTIES

- *“Open Competition” rating laws allows the insurer to “adjust” its rates to fit the overall economic climate of the area.*



- *As long as the rate has a solid actuarial basis, it usually will not be deemed excessive, inadequate and non-discriminatory. These rates allow the various insurance companies to compete for business.*

“USE AND FILE” and “FILE AND USE” IN THE EIGHTIES

- By the beginning of the 1980’s, the NAIC adopted the “file and use” or “use and file” methods of rate regulation.
- These methods minimize the time it takes insurers to get their products to market. Some file and use laws have waiting periods that range from as little as fifteen days to a maximum of sixty days.
- Some states have deemer clauses, although they typically appear in “prior approval” statutes.



LOSS COST RATE MAKING

- In the late eighties there was a charge from some consumer advocates that the insurance industry was involved in price fixing, unfair discriminatory pricing and underwriting practices. The NAIC responded by forming a Working Group in January, 1989. This group was charged with the task of reviewing the practice of ratemaking organizations providing advisory final rates to their member insurers.
- By the early 90's, a number of states had enacted legislation or adopted regulations or procedures to accommodate loss cost ratemaking.

Continuum of Rate Regulation

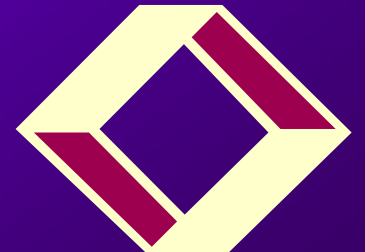
- No Filings Required
- Informational Filings
- Use & File
- File & Use (without a waiting period)
- File & Use (with a waiting period)
- Prior Approval
- Government Promulgated Rates

Subtle Nuances

- Flex-Rating
 - File & Use
 - Prior Approval
 - Flex Bands
- Hybrid Systems
 - Mixtures of one of more systems

THE REGULATOR'S ROLE

- ◆ To evaluate the impact that approval of a filing may have upon the insuring public, factors to be considered include:
 - ❖ the filer's market share
 - ❖ the percentage change in rate level
 - ❖ the dollar amount of premium change
 - ❖ the dates and magnitude of an insurer's previous rate level adjustments.



REGULATORY DETERMINATIONS

The regulator must remain alert for:

- A lack of competition in the marketplace. If detected, the regulator must be alert for possible excessive rating and unfair discriminatory rating and underwriting practices. The regulator must ascertain that the promise between the insurer and policy holder can be fulfilled.
- Financial Solvency - Check to be sure that the company has appropriate capital for your state.
- Policy provisions must be sufficiently sound to protect the insurer from insolvency.
- Rates must be fair and adequate for the coverage provided. The reviewer should take those actions which are most likely to foster a competitive marketplace in which sought after coverage is widely available.

Insurance Product Regulation and the Public Interest

- What is regulation?
 - “Government restriction of private actions to achieve particular public goals” -- *Klein*
- Traditional public interest theory suggests that the role of regulators is to correct market failures and improve economic performance

Insurance Product Regulation and the Public Interest

- Regulation is intended to remedy market failures, which represent violation of the conditions of workable competition
- Financial regulation is intended to limit some insurers' tendency to incur excessive financial risk, because of consumers' limited information and difficulty in controlling insurers' actions

Insurance Product Regulation and the Public Interest

- Market regulation of insurers' prices, products and trade practices is intended to prevent prices from rising too high (because of insurers' market power) or too low (because of overly aggressive price competition) and other abuses that might arise from consumers' lack of information and unequal bargaining power

Insurance Product Regulation and the Public Interest

- Financial regulation will necessarily restrict market entry and may limit the range of insurers' prices and products, which constitutes a tradeoff with reduced insolvency risk

Insurance Product Regulation and the Public Interest

- Regulation can improve market performance if insurers exploit any market power that they are able to acquire
- Competition generally prevents insurers from acquiring significant market power
- Regulation also can distort market forces and hurt efficiency if it suppresses prices below costs.

Insurance Product Regulation and the Public Interest

- Why do we bother?
 - Information asymmetry
 - Public mistrust of insurers and insurance producers
 - Public disinterest in reading and understanding policy terms and conditions
 - Lack of public understanding of insurance pricing and underwriting
 - Lack of public knowledge of insurance laws

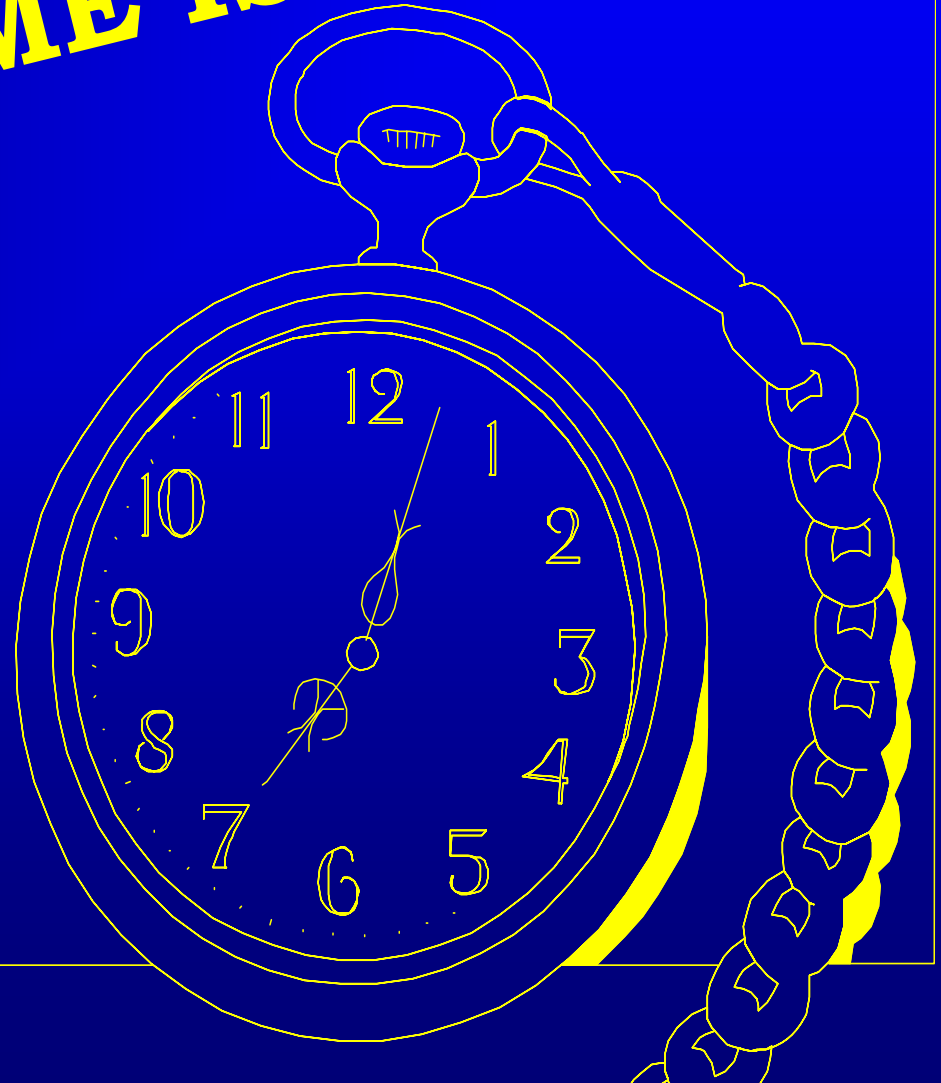
Insurance Product Regulation and the Public Interest

- Why do we bother?
 - Contracts of adhesion
 - Contracts of utmost good faith
 - Implications of insolvencies
 - Impositions by government
 - Impositions by others

Comments on Florida's Markets

- Auto Insurance Market
 - Urban Areas
 - Rural Areas
- Property Insurance Market
 - Urban Areas
 - Rural Areas
 - Coastal Areas
 - Inland Areas

MY TIME IS UP!!



THANK YOU !!

