

## **Insurance Rates Are Now Effective April 1<sup>st</sup>**

### **1. I received my automobile insurance renewal and I didn't see the rate reduction that I read about in the newspaper. Why?**

Many Massachusetts motorists have recently noticed a change in the effective date of the Commonwealth's established rates for private passenger automobile insurance. This year's rates go into effect on April 1<sup>st</sup>, rather than the January 1<sup>st</sup> start date used in previous years. For some, this change has created some confusion and led them to the mistaken conclusion that they will not receive the recent 11.7% average rate reduction.

Rest assured that this conclusion is not true. Every driver in the Commonwealth will receive the benefit of this new rate for one full year. Drivers whose policies renew before April 1<sup>st</sup> will see the new rate when their policies renew in 2008.

### **2. My policy renewal date is between January 1<sup>st</sup> and March 31<sup>st</sup>. how will this change affect me and when will I see the new rates?**

The first change you will see is that you will no longer receive provisional bills. The first bill you receive will be accurate and complete.

The other change is that you will not see the most recent 11.7% average rate reduction until your next renewal. Let's say your policy renews on February 15<sup>th</sup> of each year. Since the average 11.7% rate reduction only applies to policies that renew on or after April 1<sup>st</sup>, 2007, your renewal will be calculated based on last year's premium. When you receive your renewal packet next year – February 15, 2008 – your premium will be calculated based on this average 11.7% rate reduction. You will have this rate, adjusted for your situation, from February 15, 2008 through February 14, 2009 regardless of what happens to rates next year. Even if the rates go up, you will retain the lower rate for the entire policy period. Whatever rate is set in December 2007 will only apply to your policy beginning February 15, 2009.

The bottom line is that each and every Massachusetts driver will get this recent 11.7% average rate reduction and get it for a full year.

### **3. My policy renews between April 1<sup>st</sup> and December 31<sup>st</sup>, how will this change affect me and when will I see the new rates?**

The change in effective date will not affect you. Your policy renews late enough in the year that you were never affected by provisional billing.

4. What happens if next year's rates increase?

Those insureds renewing between January 1<sup>st</sup> and March 31<sup>st</sup>, will renew at the 2007 rate (an average decrease of 11.7%) and will not see the rate increase until they renew in 2009.

5. Who approved this change and when was this decision made?

The effective date for automobile insurance rates is set by statute. In 2004, the Legislature passed Chapter 213 of the Acts of 2004 to make this change from January 1 to April 1, effective in 2007. Only the Legislature, through statute, can change the effective date.

6. If the change was made in 2004, why wait until 2007 to make the switch?

Changing effective date from January 1<sup>st</sup> to April 1<sup>st</sup> involved a great deal of planning and preparation. Under the old system, companies had no hard deadline to revise their provisional bills. Companies had to make changes to their internal systems to ensure that renewals for April 1 policies would be ready based on the current rates. Last year's average rate reduction of 8.7% was based on this change and the knowledge that some policyholders would have the rate for two policy terms.

7. If the rates have been reduced this year, why does my insurance company get to wait until next year to give me the rate reduction? I want my premium decrease now.

In planning the implementation of this change in the effective date, the Division knew that the 2006 rates would end up being effective for a total of 15 months – from January 1, 2006 through March 31, 2007. Fortunately, the average rate for that time period (announced on December 15<sup>th</sup>, 2005) was a decrease of 8.7% from the previous year's rates.

This 15 month period, and the lack of publicity around the reasons for the change in the effective date, contributed to the mistaken impression that drivers whose policies renew in January, February and March are missing out on this year's average 11.7% rate reduction. However, it is important to understand that the new rate will be in effect for a full 12 months – from April 1, 2007 through March 31, 2008. Since all private passenger automobile policies use a 12 month term, every single driver will receive the benefit of this rate on their renewal date in this

12 month window. Such drivers will receive a full year's premium based on that rate. When the 2008 rate is announced on December 15<sup>th</sup>, 2007, it will only go into effect for policies that renew from April 1, 2008 through March 31, 2009. This will be the case regardless of whether the 2008 rate is an increase or decrease from the 2007.

The manner in which the effective date was changed can be a bit confusing, but it is important to note that it was a one-time event. From this year forward, rates will continue to be in effect on this April-through-March timetable, and all drivers will see one full year for each rate calculation. More importantly, this one time change lessens the confusion and waste as a result of provisional billing.

#### 8. Why was the effective date changed?

In 2004, the Massachusetts Legislature changed the effective date to April 1<sup>st</sup> in order to eliminate the confusing and inefficient – but necessary - practice of provisional billing. The Legislature made the change effective for the 2007 rate year in order to give companies adequate time to plan for the change.

#### 9. What is provisional billing?

Provisional billing was the billing process used by companies for policyholders with policy renewal dates between January 1<sup>st</sup> and March 31<sup>st</sup>. As a result of the way Massachusetts sets rates for private passenger automobile insurance, companies did not have time to calculate an accurate premium in time for policyholders with these renewal dates. So, when it came time to send out renewal packets for these policyholders, companies calculated a premium based on last year's rates. This was called a "provisional bill." Several months later, when the new rates were finally calculated, companies sent out a revised bill with the accurate premium. This revised bill might be an increase from the provisional bill, or a decrease, depending on whether the average rate was increased or decreased. The process was time-consuming, expensive, wasteful and confusing.

#### 10. Why was it a good idea to eliminate provisional billing?

Despite its inefficiency and wastefulness, provisional billing was absolutely necessary under the old effective date of January 1. In order to understand why, one needs to understand how automobile insurance rates are calculated in Massachusetts.

In the Massachusetts' rate setting system, the Commissioner of Insurance conducts a Rate Case each year. In the process of this Rate Case, different

parties make submissions to the Commissioner advocating for an increase or decrease in the previous year's average rate. These submissions must be supported by actuarial data. Parties to the rate case include the Attorney General, automobile insurers (through the Automobile Insurers Bureau) and the State Rating Bureau.

The rate case itself is lengthy and involves complex analysis of many aspects of the average rate, as well as rating rules that control how the average rate is modified in order to produce a premium for a given driver. In the end, the Commissioner of Insurance produces a lengthy report covering all aspects of the rate case, including the one figure that receives the most attention: the change in the average rate for private passenger automobile insurance policies in the coming year. According to statute, this rate decision must be issued by December 15<sup>th</sup> of each year. In previous years, this average rate was to be used to calculate all premiums for policies that renew on or after the following January 1.

The two weeks between December 15<sup>th</sup> and January 1 is not nearly enough time to generate all of the calculations necessary to turn this average rate (a single number) into premium amounts for the hundreds of thousands of variations needed for different policyholders based on where they live, their driving experience, their car and the amount of coverage they desire. This process typically takes approximately 2 months.

Meanwhile, insurers have hundreds of thousands of policyholders whose policies renew in the first three months of the year. Since companies typically send out renewal notices 45 days in advance of the renewal date, there is no way they can produce accurate premium calculations for renewals in January, February and March when the average rate is set in mid-December.

This is where provisional billing comes into play: For those policies that renew in the first 3 months of the year, insurers send out renewal packets containing the premium from the previous year. They know this figure is inaccurate, but an accurate premium cannot be calculated yet. This provisional bill allows customers to renew their policies with a reasonable idea of what their actual premium will be. Later, when premiums are calculated based on the average rate, insurers send out a revised bill adjusting the premium up or down accordingly.

Any Massachusetts driver whose policy renews in January, February or March knows about this process all too well. Each year, the Division of Insurance received dozens of calls from policyholders who cannot understand why their company has "changed their premium." More importantly, every automobile insurer in the state must generate two sets of bills – one provisional and one revised – for approximately 25% of their customers. This is extraordinarily and unnecessarily wasteful.

Now that the effective date of the rates has been moved to April 1<sup>st</sup>, automobile insurers will only need to send out one renewal packet to each policyholder. Each renewal packet will contain an accurate premium calculated from the current rate. Companies will no longer have to cover the cost of double renewals for one fourth of their customers. Policyholders will no longer be confused with multiple renewals listing different premium amounts for the same coverage.

#### 11. Can I change the effective date of my policy?

See our Frequently Asked Questions (FAQ) titled "Can I Change the Effective Date of my Policy?"

#### 12. What if I have more questions?

You can contact your insurance producer (agent), insurance company or the Division of Insurance's Consumer Services Section at 617-521-7794.