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BULLETIN 2008-11

TO: Insurance Companies and Insurance Company Groups That Sell Private Passenger Motor Vehicle Insurance Policies in Massachusetts

FROM: Nonnie S. Burnes, Commissioner of Insurance

DATE: August 27, 2008

RE: Regulatory Review Standards Applicable to Private Passenger Motor Vehicle Insurance Rate Filings in the Voluntary Market for Rates Effective April 1, 2009 through March 31, 2010.

In furtherance of my commitment to manage competition in our private passenger motor vehicle insurance market, I am continuing certain transitional procedures with regard to the Division of Insurance's ("Division") review of insurance companies' rate filings with effective dates during the period April 1, 2009 through March 31, 2010. It is my intention that these procedures will maintain the heightened level of transparency that the Division has achieved in the competitive rate filing and review process, as well as continue to motivate companies to keep premiums for consumers as low as possible.

A rate filing that results in a vehicle premium for the coverage package described in Exhibit 1 that is higher than the premium that would be calculated for the same vehicle based on the private passenger motor vehicle insurance rates in effect for the residual market effective April 1, 2009 through March 31, 2010 shall be subject to an adjudicatory hearing[1]. A minimum of ten days notice will be given prior to such hearing. Additionally, the change in vehicle premium shall be calculated assuming that there has been no change in the operator's circumstances from the prior policy period including, but not limited to, coverages or coverage options purchased,

[1] The residual market premium threshold applies to the total premium for the coverage package, including all expense loadings of the insurer.

the operator assigned to the vehicle, the operator's at-fault accident and traffic law violation record, the number of years the operator has been licensed, the number of miles the vehicle is driven annually, the model year or rate symbol of the vehicle and the garaging location of the vehicle.

Further, any rate filing that proposes to increase the Filer's current rating territory relativity by more than 10% shall be subject to an adjudicatory hearing. A minimum of ten days notice will be given prior to such hearing. Exhibit 2 outlines the details of the calculation of an insurer's current rating territory relativity and the minimum actuarial support required to justify changes to those relativities.

If a rate filing surpasses ***either*** the residual market premium threshold or the rating territory relativity threshold described above, an adjudicatory hearing shall be noticed.

For the purpose of creating a system of rates that is both compliant and competitive, any actuarially sound rate capping methodology may be used and shall be disclosed by the filer in its rate filing. Capping total premiums at a policy level based on a comparison with the policy premium generated under the prior rate level is not considered an actuarially sound rate capping methodology for private passenger motor vehicle insurance rates and is not permitted.

Any insurer or insurance company group that did not issue private passenger motor vehicle insurance policies in the Commonwealth prior to April 1, 2009 will be required to justify its proposed rates relative to the thresholds contained in this Bulletin.

All rate filings for private passenger motor vehicle insurance policies with effective dates between April 1, 2009 and March 31, 2010 shall be accompanied by specific filing forms and checklists, as required by the Division, including a certification by an Officer of the filer's organization that the change in the vehicle premium satisfies the residual market premium and rating territory relativity thresholds. Specific filing requirements will be available on the Division's website no later than September 15, 2008.

If you have any questions regarding this Bulletin, please contact Cara Blank, Property Casualty Actuary at 617-521-7344 or cara.blank@state.ma.us.

Exhibit 1

Coverage Package Premium Not To Exceed MAIP Premium in Effect April 1, 2009 Through March 31, 2010

- 20/40 bodily injury liability (including guest and out-of-state coverage)
- $8,000 personal injury protection, no deductible
- $5,000 property damage liability
- 20/40 uninsured motorist coverage

Exhibit 2

Calculation of the Insurer's Current Rating Territory Relativity

Each insurer's current rating territory relativity for bodily injury liability, personal injury protection, property damage liability, collision, and comprehensive shall be calculated as follows:

1. Calculate the weighted average base rate for each of the operator classes 10 (or its equivalent), 15, 17, 18, 20, 21, 25, 26, and 30 using the insurer's most recent earned exposure counts with CAR ID codes 0 or 0 and 1 for each rating territory in effect from April 1, 2008 through March 31, 2009. Insurers may alternatively make this calculation by combining operator classes 20 & 25, operator classes 21 & 26, and operator classes 10 & 15.

2. The insurer's current rating territory relativity within each operator class is calculated by dividing the base rate for the rating territory/operator class by the average base rate for the operator class calculated in 1. above.

Each insurer's current rating territory relativity for uninsured motorists and underinsured motorist is 1.0.

Actuarial Supporting Information

Insurer rate filings shall contain the insurer's actual loss experience by rating territory and operator class if the filing proposes to change rating territory relativities as described below. The actuarial justification for any proposed rating territory relativities may include industry statistics as described below.

1) Pure Premium Ratemaking Methodology

   a) Insurer Loss Data. The filing shall include the insurer's pure premiums calculated using losses with CAR ID codes 0 or 0 and 1, and the insurer's experience based pure premium relativities for each operator class and rating territory combination that correspond to the insurer's current rating territory relativity. The filing must also explain how the insurer's experience based rating territory relativities have been adjusted to a common average merit rating factor based on the merit rating plan to be used in conjunction with the filed rates. The pure premium relativities may be further adjusted for other distributional effects if warranted on an actuarial basis.

   b) Industry Loss Data. Industry pure premium relativities using accident year 2005-2007 losses for all business types or just CAR ID codes 0 and 1 for each operator class and rating territory combination may be used as a complement of credibility to the insurer's

Exhibit 2

own experience. The industry pure premium relativities shall be adjusted to a common average merit rating factor based on the merit rating plan in effect for 2007. Pure premium relativities may be further adjusted for other distributional effects if warranted on an actuarial basis.

c) Statistical Credibility. Any generally accepted actuarial credibility standard may be used in the determination of the indicated rating territory relativity. The rate filing shall include reference to the source of any credibility standard relied upon.

2) Loss Ratio Ratemaking Methodology

a) Insurer Loss and Premium Data. The filing shall include the insurer's loss ratios calculated using losses and earned premium with CAR ID codes 0 or 0 and 1, and the insurer's experience based loss ratio relativities for each operator class and rating territory combination that correspond to the insurer's current rating territory relativity. Loss ratio relativities used in the calculation of the indicated change to the insurer's current rating territory relativities must fully reflect the effects of any merit rating plan in effect during the experience period. Earned premiums should be brought to current rate levels.

b) Industry Loss Data. Industry loss ratios using the losses and earned premiums for all business types or just CAR ID codes 0 and 1 for each operator class and rating territory combination may be used as a complement of credibility to the insurer's own experience. Loss ratio relativities used in the calculation of the indicated change to the insurer's current rating territory relativities must fully reflect the effects of any merit rating plan in effect during the experience period. Earned premiums should be brought to current rate levels.

c) Statistical Credibility. Any generally accepted actuarial credibility standard may be used in the determination of the indicated change to the current rating territory relativity. The rate filing shall include reference to the source of any credibility standard relied upon.

3) New Entrants

The current territory rating relativity for insurers new to the Massachusetts private passenger motor vehicle insurance market shall be calculated based on the Commissioner's base rates for each rating territory and operator class in effect from April 1, 2007 through March 31, 2008. The earned exposure counts used to compute the average base rate for each operator class may be the 2007 earned exposure counts for the industry as a whole or for CAR ID codes 0 or 0 and 1.

Exhibit 2

New entrants may propose changes to these relativities based on industry loss data and business judgment.

4) Proposed Changes to Insurer's Current Rating Territory Relativities
An insurer's proposed changes to its current rating territory relativities shall be such that the current and proposed average rating territory relativity for each operator class is equal to 1.0. Changes to rating territory relativities within an operator class that result in an average rating territory relativity for the operator class that is other than 1.0 may not be balanced back in to the base rates. The rate filing must contain a side by side exhibit that displays the current and proposed rating territory relativities as measured by the current and proposed base rates and the percentage change for each operator class and rating territory combination.

Rate filings must also explain how expected differences in the rating territory and operator class distribution among risk categories or companies used for policy placement have been reflected in the risk category or company factor.