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**Decision and Order on Massachusetts Property Insurance  
Underwriting Association Revised Rate Filings**

**R2005-14**

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**I. Introduction and Background**

On September 9, 2005 the Massachusetts Property Insurance Underwriting Association (“MPIUA”) submitted three rate filings (“the rate filings”) to the Commissioner of Insurance (“Commissioner”) for her approval pursuant to G. L. c. 175C, §5. The filings addressed three types of coverage: 1) Homeowners, which includes policies issued to owners of residential property and condominiums, and renters; 2) Dwelling Fire and Extended Coverage; and 3) Commercial Fire and Allied Lines. The proposed overall statewide rate effects were: 1) +12.5 percent for Homeowners; 2) +6.4 percent for Dwelling Fire and Extended Coverage; and 3) 0.0 percent for Commercial Fire and Allied Lines. The proposed effective date was December 31, 2005. Hearings on the filings began on October 11, 2005 and continued into April 2006.

On June 30, 2006, the Commissioner issued her *Decision and Order on Massachusetts Property Insurance Underwriting Association Rate Filings* (“*Decision and Order*”). She found that the MPIUA demonstrated that, with two categorical exceptions, the elements underlying its proposed rates were reasonable or fell within a range of reasonableness. However, she disapproved the filing because of those two exceptions: 1) the MPIUA’s inclusion of a rate component for the net cost of reinsurance; and 2) its estimate of potential losses associated with hurricanes that were not included in the estimates generated by hurricane loss models (“non-modeled losses”). Specifically, she found that the MPIUA had not actually incurred the reinsurance costs included in its rate filings and had not supported proposed values for some non-modeled losses, notably demand surge, debris removal and

“other expenses.” Because the reinsurance costs and hurricane loss loading were allocated to all territories and all policy forms, they affected the MPIUA’s rates for all coverages, and effectively increased rates throughout the state.

Based on our practice in other proceedings where the Commissioner has disapproved rate filings, we authorized the MPIUA to submit revised filings consistent with the *Decision and Order*. See *Blue Cross and Blue Shield of Massachusetts Proposed 1998 Rates for Direct Pay Medicare Supplement Products*, Docket Nos. R97-41 and -44. We stated in the *Decision and Order* that, if the MPIUA demonstrated that it had purchased reinsurance for a premium of a dollar amount at least as great as \$17.5 million, we would find it reasonable to include in the rates the \$13 million net cost of reinsurance set out in the September rate filings. We also stated that we would find reasonable the inclusion of a factor for non-modeled losses whose components fell within specified ranges of reasonableness. We indicated that we would approve revised rate filings which: 1) reduced the "demand surge" component of the non-modeled losses to within a range of 1 to 5 percent; 2) eliminated a provision of 2 percent for debris removal; and 3) limited the proposed non-modeled “other expenses” to a 5 percent provision for the effect of under-valuation of the MPIUA’s book of business.

## **II. The MPIUA’s Revised Rate Filings**

On July 28, 2006, the MPIUA filed three revised rate filings (“the revised filings”). The revised filings change the statewide overall rate effects to the following: 1) +12.4 percent for Homeowners Insurance; 2) +5.7 percent for Dwelling Fire and Extended Coverage; and 3) 0.0 percent for Commercial Fire and Allied Lines. For each revised filing, the proposed effective date is October 1, 2006.

The revised filings document the MPIUA’s purchase of reinsurance for a one-year period with an effective date of July 1, 2006. The total premium dollar amount for this coverage is \$38.375 million, an amount which exceeds the \$17.5 million value in its rate filings. However, only the \$13 million which we found would be reasonable is included in the MPIUA’s revised filings. An affidavit of John Golembeski, president of the MPIUA, was included in the revised filings. In it he states that the MPIUA Board of Directors voted on May 25, 2006, to purchase reinsurance through Guy Carpenter, a reinsurance broker, to be effective on July 1, 2006. In line with this authorization, he avers that the MPIUA negotiated the purchase of a reinsurance program that offers \$455 Million in total coverage. Further, Mr. Golembeski states that the MPIUA will pay the premium in quarterly installments of \$9,593,750, and that a first payment has been made. The attachments to his affidavit include

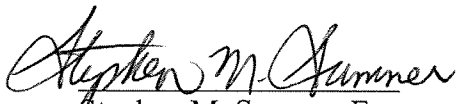
internal MPIUA documents evidencing that first payment and a contract summary from Guy Carpenter indicating that the second payment is due in October 2006. The documents also confirm that the purchase of this reinsurance is final and binding.

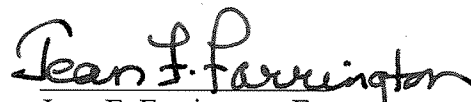
The MPIUA's revised filings reduce the rate component for non-modeled losses from 17 percent to 8.2 percent. In accord with the *Decision and Order*, the MPIUA reduced its "demand surge" component to 3.2 percent, a value generated by the RMS model that falls within the 1 to 5 percent range of reasonableness established by the *Decision and Order*. It eliminated a debris removal factor from its non-modeled loss components and limited the non-modeled losses for "other expenses" to a five percent provision for the effect of under-valuation.

We find, based on our review, that the MPIUA's revised filings satisfy the Commissioner's concerns that resulted in her disapproval of the MPIUA's rate filings, and comply with the parameters set out in our *Decision and Order*.

### **III. Conclusion**

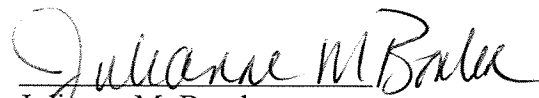
Based upon our review and analysis of the MPIUA's rate filings and revised rate filings, and the conclusions that we reached in the *Decision and Order*, which are incorporated by reference herein, we find that the MPIUA's rate filings, consisting of its three September 9, 2005 rate filings as amended and modified by its three July 28, 2006 revised filings, comply with the parameters set out in the *Decision and Order*, and that the resulting rates will not be excessive, unfairly discriminatory or inadequate. Therefore, the MPIUA's September 9, 2005 rate filings as amended and modified by its July 28, 2006 revised filings are hereby approved. Issued this 11th day of August, 2006.

  
Stephen M. Sumner, Esq.  
Presiding Officer

  
Jean F. Farrington, Esq.  
Presiding Officer

I have reviewed this decision by the hearing officers and approve their findings and conclusions.

August 11, 2006

  
Julianne M. Bowler  
Commissioner of Insurance

This decision may be appealed pursuant to G.L. c. 30A.