



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE ATTORNEY GENERAL
ONE ASHBURTON PLACE
BOSTON, MASSACHUSETTS 02108

MAURA HEALEY
ATTORNEY GENERAL

(617) 727-2200
(617) 727-4765 TTY
www.mass.gov/ago

November 30, 2015

The Honorable Michael Barrett, Chair
Senate Committee on Post Audit and Oversight
State House, Room 416
Boston, MA 02133

**Re: Recent Homeowners Insurance Rate Filings and Related Policy
Recommendations**

Dear Chairman Barrett:

Thank you for the opportunity to testify at the hearing several weeks ago on recent homeowners insurance rate increases. We believe that these increases, coupled with a large number of non-renewals following a historic winter, have created a unique opportunity for policymakers to reevaluate the Commonwealth's role in ensuring consumer access to a transparent, accountable, and consumer-focused homeowners insurance market. This letter is intended to provide you with additional context on recent rate filings, and advance several recommendations that we believe will help the market function more effectively.

As an initial matter, the recent rate increases by several homeowners insurers in Massachusetts are of serious concern to the Attorney General's Office. We believe rates should be fair for all consumers. The rate increases for two filings, MAPFRE and Safety, both of which approach 10%, are driven primarily by two elements in filings: non-hurricane catastrophe losses and profit.

Non-hurricane catastrophe losses are losses from events, such as large winter storms, that generate at least a certain level of claim damage (hurricane losses are calculated separately). However, instead of relying on long-term data as they did in previous projections, these companies are now placing heavier weight on recent experience. For example, MAPFRE now uses non-hurricane catastrophe averages from the last 7-10 years' experience, and Safety gives double weight to the last five years of experience. This approach is often biased; companies shorten the time period for losses when the procedure increases their revenues, but do not give

extra weight to recent experience when catastrophes are low. In fact, ISO, the industry rating organization which files loss cost on behalf of insurers in many states, including Massachusetts, uses a period of fifty years for non-hurricane catastrophes.

A second factor contributing to recent substantial premium increases is an increase in the profit provisions in the filings. Changes in profit are often arbitrary and not supported by sufficient data in the filing. We do not believe it is fair for insurers to take advantage of the recent winter storms to simply increase their bottom lines. Accordingly, we believe the rates for MAPFRE and Safety are excessive. Had they not changed these two provisions in the filing, the rates or MAPFRE would have actually decreased under its new rates, and the rates for Safety would only have increased 2-3% on average under the company's new rate plan.¹

As such, our office believes that the voluntary homeowners insurance market could benefit from increased transparency, accountability, and a greater focus on consumers. Such enhancements would improve the competitiveness of this voluntary market, helping both ratepayers and companies alike. With those three policy priorities in mind, we offer the following specific recommendations.

First, the current rate-filing process for homeowners insurance involves no disclosure or notice beyond the Commissioner of Insurance. As result, unless the Commissioner exercises his discretion to hold a hearing, consumers and other stakeholders – including our office – do not know when new proposed rates have been filed, what the proposed rates are and what the justifications for the new rates are. The Commissioner is not required to explain his decision to hold or not to hold a hearing, and rate increases often go into effect without a hearing or meaningful public process.

Accordingly, we propose that the existing rate-filing process be supplemented to enhance transparency and accountability. Proposals for new rates, as well as any supplementary materials or information, should be filed publicly with the Commissioner of Insurance. This would empower all potentially impacted stakeholders to understand the proposal at the same time it is filed with the Commissioner, and equip stakeholders to raise any questions or concerns with the Commissioner through a public process.

We also support requiring the Commissioner to publish standards, with input from stakeholders, which would guide his decision as to whether a hearing needs to be held. This hearing could also be used to address stakeholder questions raised after the company's rate filing. Moreover, whenever the Commissioner makes a decision to hold or forego a hearing, he should provide a written explanation of his decision, subject to judicial review. Such procedures would ensure a more transparent rate-setting process that would provide greater accountability to consumers.

¹ This assumes that other aspects of the company filings remain the same. Other adjustments might make the rates fall. As you know, the issue of whether appropriate hurricane loads and reinsurance expenses are being properly applied in rate filings remains contentious. Our office questioned whether the hurricane and reinsurance portions of the MPIUA's FAIR Plan filing unfairly inflated those proposed rates, and the Commissioner rejected the MPIUA filing.

We appreciate the opportunity to offer our proposals to improve this important market. If you have any questions, please do not hesitate to contact Benjamin Meshoulam, Senior Policy Advisor, at (617) 963-2601.

Sincerely,



Glenn Kaplan, Chief
Insurance and Financial Services Division