



March 13–15, 2023
San Diego, CA
Loews Coronado Bay Resort

Ratemaking, Product and Modeling Seminar



1

Perspectives on Current Events in California's Insurance Market

CAS Ratemaking, Product and Modeling Seminar
San Diego, CA
March 2023

Sheri Scott, FCAS, MAAA, CSPA




2

Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.



3

Agenda

- California Wildfire New Normal
- Impact of Wildfires on Insurance Market
- Market Response
- Public Policies
- Section title / headline

4

California Wildfire New Normal

Climate Change Metrics

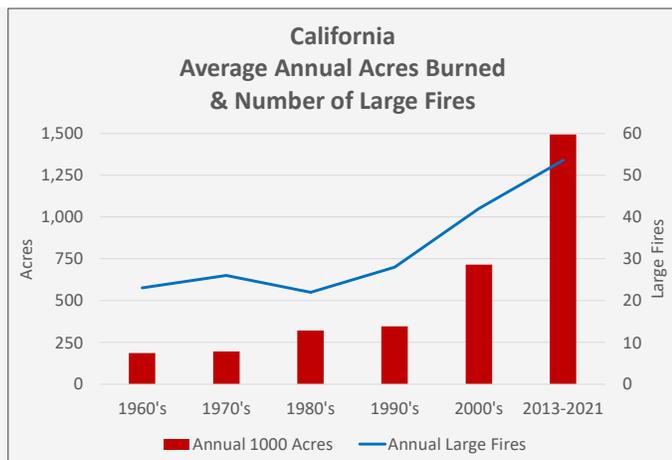
- Global climate as well s California climate is warming.
- California Department of Forestry and Fire Protection 2017 Assessment Report provides metrics:
 - CO2 concentration increasing due to fossil fuels
 - Temperature warming
 - Dry season lengthening
 - Wildfires increasing in count and severity
 - Structures exposed increasing
 - Structures burned increasing

5

California Wildfire New Normal

Acres Burned & Number of Wildfires Increasing

- California
 - Increasing average annual acres burned
 - Increasing severity of wildfires
 - Lengthening wildfire season



6

California Wildfire New Normal

Structures Exposed Increasing

- California
 - Property development encroaching on/into Wildfire Urban Interface (WUI)
 - 2.2 million housing units exist in the WUI as per 2017 Assessment report
- Perfect Storm
 - Wildfire footprint expanding
 - Building footprint expanding
 - Growing intersection between wildfire & building area
 - More frequent and sever wildfires
 - Extended burning season (all year now)
 - More structures exposed and for longer periods of time

7

California Wildfire New Normal

Number of Structures Burned Increasing

- Increased 5-year average structures burned
- The new normal

Calendar Year	Number of Wildfires	Number of Large Wildfires	1000 Acres Burned	Number of Structures Burned	5 Yr Avg 1000 Acres Burned	5 Yr Avg Structures Burned
2013	9,907	26	601,625	456		
2014	7,233	32	625,540	471		
2015	8,283	32	880,899	3159		
2016	6,954	38	669,534	1274		
2017	9,270	79	1,548,429	10,280	865,205	3,128
2018	7,948	53	1,975,086	24,226	1,139,898	7,882
2019	7,860	34	259,823	732	1,066,754	7,934
2020	8,648	52	4,304,379	11,116	1,751,450	9,526
2021	8,835	29	2,568,948	3,629	2,131,333	9,997

8

Impact of Wildfires on California Insurance Industry

Earthquakes Verses Wildfires

10 Costliest U.S. Insured Earthquakes

Year	Earthquakes	Insured Loss (Millions)	
		At Event	2021 Value
1906	San Francisco, CA	235	7,303
1971	San Fernando, CA	32	215
1987	Whittier Narrows, CA	75	176
1989	Loma Prieta, CA	960	2,071
1994	Northridge, CA	15,300	28,357
2001	Nisqually, WA	315	486
2011	Virginia, VA/DC	100	120
2014	South Napa, CA	200	228
2018	Anchorage, AK	150	161
2020	Puerto Rico, PR	425	446
Total		39,563	
Average Per Year		3,956	
Average Per Year in CA		5,548	

<https://www.iii.org/fact-statistic/facts-statistics-earthquakes-and-tsunamis>

- 6 of 10 Costliest U.S. Insured earthquakes in CA
- Annualized cost for these earthquakes is \$5.5 billion

10 Costliest U.S. Insured Wildfires

Year	Wildfires	Insured Loss (Millions)	
		At Event	2021 Value
1991	Oakland Tunnel, CA	1,700	3,350
2007	Witch Fire, CA	1,600	2,080
2017	Tubbs Fire, CA	8,700	9,560
2017	Atlas Fire, CA	3,000	3,300
2017	Thomas Fire, CA	2,250	2,470
2018	Woolsey Fire, CA	4,200	4,520
2018	Camp Fire, CA	10,000	10,750
2020	Glass Fire, CA	2,950	3,070
2020	CZU Lightning, CA	2,500	2,600
2020	LNU Lightning, CA	2,250	2,340
Total		44,040	
Average Per Year		4,404	
Average Per Year in CA		4,404	

<https://www.iii.org/fact-statistic/facts-statistics-wildfires>

- \$44.0 billion for top 10 higher for wildfire than \$39.6 billion for earthquake
- 10 of 10 Costliest U.S. Insured wildfires in CA
- Annualized cost for these 10 CA wildfires is \$4.4 billion

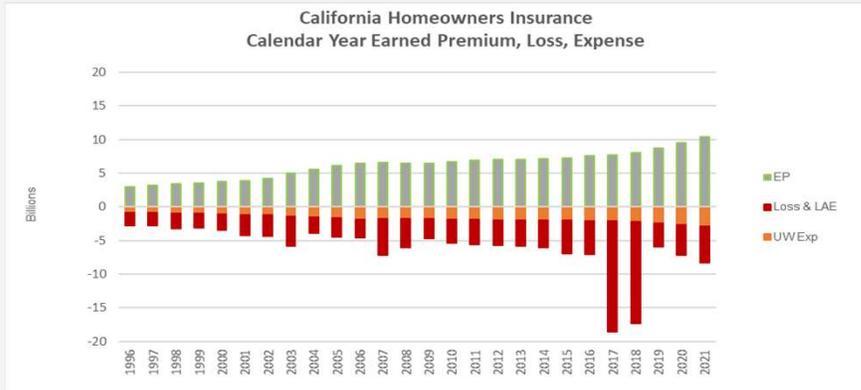
Impact of Wildfires on California Insurance Industry

Earthquakes Versus Wildfires

- Wildfires a catastrophe with similar impact as earthquake in terms of number of properties exposed, total insured dollars, average annual insured loss.
- Wildfire covered by fire peril and cannot be excluded, creating a bigger insured exposure across CA than earthquake.
- California does not permit increased cost of capital in ratemaking for wildfire, disallowing ability to recover costs for retaining catastrophic risk.
- California does not permit net cost of reinsurance in ratemaking for wildfire, disallowing ability to recover costs for insuring catastrophic risk, outside of earthquake for which it is allowed to include net cost of reinsurance.
- NAIC Risk Based Capital model applies a catastrophe load for earthquake but not wildfire.

Impact of Wildfires on California Insurance Industry

Calendar Year CA Homeowners Insurance Premium, Loss, Expenses

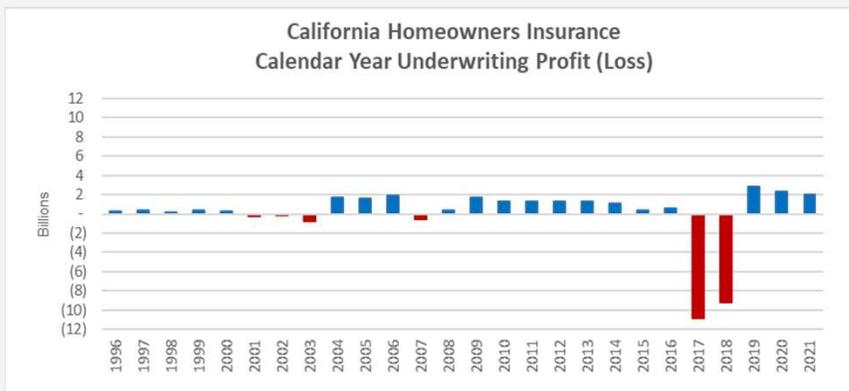


▪ CA Homeowners Loss & Expense Outstrip Premiums in 6 Calendar Years When Wildfire Occur

11

Impact of Wildfires on California Insurance Industry

Calendar Year CA Homeowners Insurance Industry Profit (Loss)

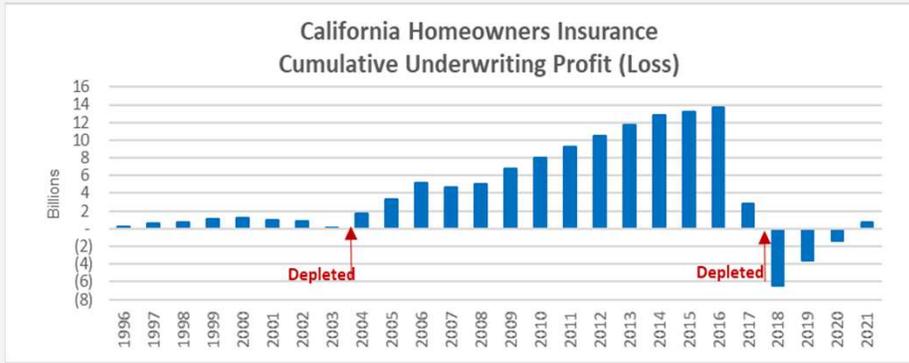


▪ CA Homeowners Loss & Expense Outstrip Premiums in 6 Calendar Years When Wildfire Occur

12

Impact of Wildfires on California Insurance Industry

Calendar Year CA Homeowners Insurance Cumulative Underwriting Profit (Loss)

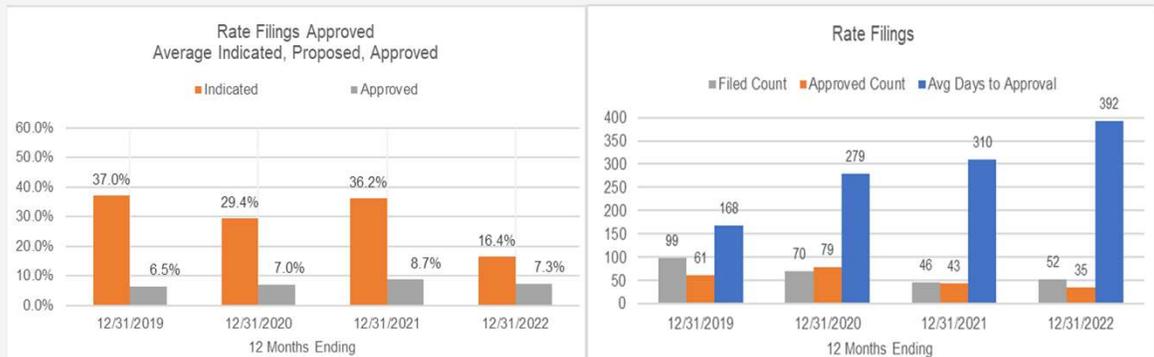


- Wildfires deplete CA Homeowners cumulative underwriting profit.
- The 2017 and 2018 wildfire loss & LAE outstripped the gross premium earned for the 6 years since.

13

Impact of Wildfires on California Insurance Industry

Impact on Homeowners Rate Filings



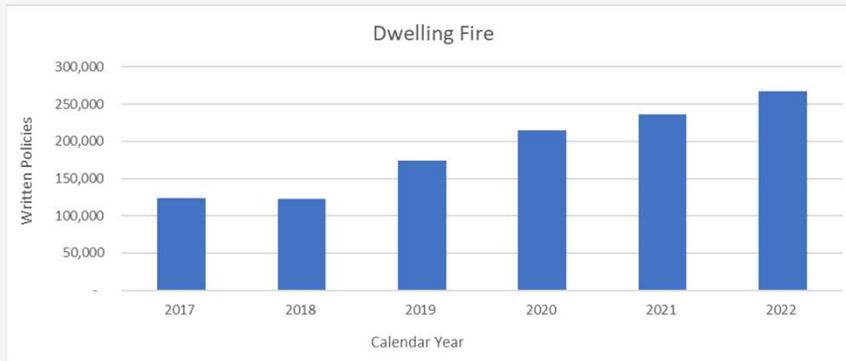
SNO.com on 2/1/23. Approved Filings with Type of Coverage = Homeowners; Filing Type includes "Rate" or "New Program" submitted since 1/1/17; Filing Status = "Approved" for 12 months ended. Counts unique filing number, even for group filings.

- Residual Rate Accumulating
- More Complex Filings
- Increased CDI Review Time; Data Refresh Required

14

Market Response

Calendar Year FAIR Plan Dwelling Fire Policies



- FAIR Plan policies continue to grow at double digit rate year over year.
- Growth in Wildfire exposed areas and flat / decrease in urban non-Wildfire areas.
- Growth in inadequately rated Wildfire areas increasing overall rate inadequacy and urban non-Wildfire area subsidization of inadequate Wildfire rates.

Market Response

Cause for FAIR Plan Growth

Insurance companies reducing CA wildfire exposure (tighter underwriting, non-renew, pull out of CA)

- Global increased cost of capital and reinsurance for catastrophes incl. wildfires, reduced capacity
- Inability to recover net cost of reinsurance or higher cost of capital from CA wildfire exposure
- Cost and length of state rate filing review time
 - Increased sophistication of wildfire models
 - New CDI [Residential Property Questionnaire](#) wildfire section
- Cost to comply with California Insurance Code, Section [2644.9](#) Mitigation in Rating Plans and Wildfire Risk Models by April 12, 2023
- Reduce market share used for FAIR Plan assessments

Public Policies

ASOP Evolution – 1998 to 2000

Drafted New ASOPs For Catastrophe Ratemaking

Background From ASOPs

Many property/casualty insurance products are, by their nature, subject to large aggregate losses resulting from relatively infrequent events or natural phenomena, i.e., from catastrophes. These losses can cause extreme volatility in historical insurance data and generally require separate and different treatment from other losses in ratemaking methodologies.

Historically, the most common method was to calculate the ratio of actual catastrophe losses to non-catastrophe losses over a longer experience period and apply that ratio to expected non-catastrophe losses in the ratemaking formula...

Hurricane Andrew and Northridge Earthquake catastrophes clearly demonstrated the limitations of relying exclusively on historical insurance data in estimating the financial impact of potential future events. Hurricane Andrew in 1992 and the Northridge Earthquake in 1994 led actuaries involved in evaluating hurricane and earthquake exposures to recognize the severe inadequacy of the traditional, empirical actuarial methods used for ratemaking for these exposures. In recognition of the need to replace these methods, many actuaries began using computer simulation models."

This actuarial standard of practice is intended to provide guidance to actuaries in evaluating catastrophe exposure and in determining a provision for catastrophe losses and loss adjustment expenses in property/casualty insurance ratemaking."

17

Public Policies

ASOP Evolution – 1998 to 2000

Adopted 3 New ASOPs for Catastrophe Ratemaking

▪ **ASOP 38 - Using Models Outside the Actuary's Area of Expertise**

Catastrophe may models provide more realistic measures of catastrophic risk than those provided by analyzing the latest twenty to fifty years of catastrophe losses.

▪ **ASOP 39 - Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking**

Ensure sufficient historical data for stability and changes to historical data frequency & severity, insured portfolio coverages, location, limits, accounted for.

▪ **ASOP 56 – Modeling**

Guidance to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating model, including those used in ratemaking.

18

Public Policies

To Support a Stable and Healthy Insurance Marketplace

Getting Adequate Rate to Cover Cost of Providing Insurance

- Categorize wildfires a catastrophe like earthquake for regulatory purposes
 - Update CA Rate Indication Methods to Latest ASOP to Use Models Instead of 20-Year Historical Catastrophe Look Back
 - Allow Net Cost of Reinsurance for Wildfire Like Earthquake or Increased Cost of Capital for Retained Catastrophe Risk
- Rate Adequacy
 - Seek More Than 7.0% Rate Increase if Needed, Not Many Go to Rate Hearing
 - Thorough Rate Filing Submission With Support To Facilitate CDI's Review
 - Respond to Objections Quickly
 - Speed Up Filing Review Times So Rate Filings Don't Get Stale

19

Thank you

Sheri Scott, FCAS, MAAA, CSPA

20

Perspectives on Current Events in California's Insurance Market

March 14, 2023

Ken Allen, CPCU, AIE

Deputy Commissioner, California Department of Insurance

π

21

Disclaimer

The opinions expressed in this presentation and on the following slides are solely those of the presenter and not necessarily those of the California Department of Insurance.

π

22

Mitigation in Rating Plans and Wildfire Risk Models

23

π

Mitigation in Rating Plans and Wildfire Risk Models

- › New California Code of Regulations (CCR) §2644.9
- › Basic requirement: if there is a wildfire risk component to the policyholder or applicant's premium, the insurer must comply with CCR §2644.9
- › Applies to personal lines *and* commercial lines
- › An insurer's rating plan must take into account and reflect *each* of 12 mandatory factors

24

Mitigation in Rating Plans and Wildfire Risk Models

Mandatory Factors (12)

Community-level (2)	Property-level: Surroundings (5)	Property-level: Building (5)
Fire Risk Reduction Community per Public Resources Code 4290.1	Clearing of Vegetation/Debris from Under Decks	Class-A Fire Rated Roof
Firewise USA Site in Good Standing	Clearing of Vegetation/Debris from within 5 Feet of Building	Enclosed Eaves
	Noncombustible Fences/Gates within 5 Feet of Building	Fire-Resistant Vents
	Removal or Absence of Combustible Structures (30 Feet)	Multipane Windows or Functional Shutters
	Public Resources Code 4291; Local Ordinances – Defensible Space	6 Inches Vertical Clearance

Mitigation in Rating Plans and Wildfire Risk Models

- › Compliant filings responsive to the new regulations are due to the Department no later than April 12, 2023
- › The Department issued Bulletin 2023-2 to insurers on February 3, 2023 specifying the process and manner by which an insurer can submit a simplified filing that is responsive to and compliant with the new regulations
- › In addition to the 12 mandatory mitigation factors, an insurer’s rating plan can also take into account and reflect optional wildfire mitigation factors

Mitigation in Rating Plans and Wildfire Risk Models

Optional Factors

Other Factors That Are Substantially Related To Risk Of Wildfire Loss
Fuel
Slope
Access
Aspect
Structural Characteristics
Wind
Other community-level or property-level mitigation efforts or designations

27

Mitigation in Rating Plans and Wildfire Risk Models

- › As is the case with all other filings submitted to the Department, anything submitted pursuant to this new regulation shall be available for public inspection per California Insurance Code (CIC) §1861.07
- › An insurer's own California wildfire loss data must be used
- › Lack of credible data? Credibility-weight the California data with an appropriate complement of credibility
- › Property experience data per CIC §929 may help! (SB 824)

28

Mitigation in Rating Plans and Wildfire Risk Models

- › Provide the wildfire risk score or other wildfire risk classification to the policyholder or applicant
- › By April 12, 2023 insurers must have a written procedure in place for providing the wildfire risk score/classification to the applicant or policyholder
- › Various timeframes within which the insurer must provide the wildfire risk score/classification identified in CCR §2644.9(h)
- › A policyholder or applicant can appeal their wildfire risk score or wildfire risk classification per CCR §2644.9(i)

29

Mitigation in Rating Plans and Wildfire Risk Models

- › The policyholder or applicant must be provided:
 - The range of all potentially available scores or classifications
 - The position of the policyholder or applicant in that range
 - The impact of the score or classification on the rate or premium
 - A detailed explanation as to why the score or classification was assigned
 - What mitigation measures can be taken to lower the score or classification; and
 - The amount of premium reduction that could be realized with mitigation

30

Mitigation in Rating Plans and Wildfire Risk Models

California Department of Insurance
RICARDO LARA
Insurance Commissioner

Need help with insurance? Call us.
Call 800-927-4357 (HELP)
Se Habla Español

File a Complaint Consumers Seniors Agents & Brokers Insurers Fraud News About Us

Insurers Overview P&C Rate Filing Prior Approval Rate Filing Information

Prior Approval Rate Filing Information

Please use the most current rate application posted below.
For a summary of changes included in the new versions, please refer to the Application Change Log.

- Application Change Log (READ FIRST) (revised 01-03-2023)
- Prior Approval Rate Filing Instructions
- AttM&K
- Prior Approval Rate Application
- Prior Approval Rate Template
- Standard Exhibits Template
- Supplemental Quarterly Development Template (Applicable to rate filings submitted for COVID-19 impacted line(s) of business; optional for all other lines of business)
- Prior Approval Factors (Efficiency, Standard, Reserve Ratios, Leverage Factors)
- Maximum Permitted Rate of Return & Yields for Investment Income Calculation - January 2023 (Date Posted: February 1, 2023)
- Prior Approval Rate Application Process FAQs (04-11-17)
- Prior Approval Rate Application - Data Quality and Reconciliation Checklist (07-05-19)
- Model Checklist
- Questionnaire for Homeowners or Residential Property
- Mitigation in Rating Plans and Wildfire Risk Models Questionnaire

Rate Filing Documents for COVID-19 Impacted Lines

- COVID-19 Industry Rate Filing Requirements Guidance (Edition 06-03-2021)
- COVID-19 Rate Filing Questionnaire (Edition 06-03-2021)
- Supplemental COVID-19 Exposure and Premium Template (Edition 06-03-2021)
- Supplemental Quarterly Development Template (Edition 06-01-2021)

Mitigation in Rating Plans and Wildfire Risk Models Regulation

- California Code of Regulations Section 2644.9, Consideration of Mitigation Factors, Wildfire Risk Models
- FAQ (Edition 02-16-2023)
- Mitigation in Rating Plans and Wildfire Risk Models Questionnaire

Please ensure you have enabled macros before attempting to use any of the features of the above templates. Please contact RDRTemplates@insurance.ca.gov for any comments, questions or technical difficulties regarding these templates.

Translate this page with Google Translate

- Insurers Overview
- Insurers
- Electronic Funds Transfer (EFT) Programs
- OASIS
- Legal Information
- Data & Reports
- CDIR
- Insurance Diversity Initiative
- P&C Rate Filing
- Viewing Room
- Rate Filing Lists
- Prior Approval Rate Filing Information
- ERIC
- LDS

SB 1107 Minimum Financial Responsibility Limits

SB 1107 Minimum Financial Responsibility Limits - CA

- › Current California minimum financial responsibility (FR) limits:
 - \$15,000 for bodily injury/death per person
 - \$30,000 for bodily injury/death all persons
 - \$5,000 for damage to the property of others

- › Effective January 1, 2025 the minimum FR limits increase to:
 - \$30,000 for bodily injury/death per person
 - \$60,000 for bodily injury/death all persons
 - \$15,000 for damage to the property of others

SB 1107 Minimum Financial Responsibility Limits

- › The Department issued Bulletin 2023-1 to insurers on January 30, 2023 that included the process and manner by which an insurer can submit a prescriptive filing that is responsive to and compliant with the upcoming increase in minimum FR limits

- › The minimum FR limits will increase again effective January 1, 2035 (50/100/25)

π

SB 1107 Minimum Financial Responsibility Limits

- › SB 1107 Filings are due to the Department by July 1, 2023
- › *These* filings must be for the sole purpose of introducing the new minimum FR limits option
- › The SB 1107 Rate Application filing type must be “Rule filing without rate impact”
- › Use the Program name “FR Limits 2023”
- › The only item to be included in *this* filing is the introduction of the new limits if they are not in the insurer’s existing rating plan

35

π

SB 1107 Minimum Financial Responsibility Limits

- › No changes to the rating relativities of existing limit options, or any other rating elements of the insurer’s rating plan in *this* filing
- › Any revisions determined to be necessary to existing limit relativities must be submitted in a separate class plan application
- › Submit all documents required as part of a Rule filing without rate impact
- › Provide support for the rating relativities for the newly introduced FR limits

36

π

SB 1107 Minimum Financial Responsibility Limits

- › For insurers that currently have and offer the new minimum FR limits, submit the Rule filing without rate impact as previously mentioned, excluding the support for the rating relativities
 - The insurer must attest to the existence of these limit offerings in the Filing Memorandum and identify where those limits can be found in the insurer's rate and rule manual included in the filing

37

Most Common
Issues With
Submitted
Filings

38

Most Common Issues With Submitted Filings

> Intake

- Missing one of the four main components required for a “Complete Application”:
 - > Prior Approval Rate Application – all of the general information
 - > Prior Approval Rate Template(s) – ratemaking calculations
 - > Standard Exhibits Template – support for the rate template
 - > Affidavit – declaration by authorized insurer representative
- Missing the *Model Checklist*
- Missing the *Questionnaire for Homeowners or Residential Property*

Most Common Issues With Submitted Filings

> Intake (continued)

- Missing the *Supplemental Quarterly Development Template* – for COVID impacted lines; if same as the template submitted in the last rate filing, re-attach and indicate no change from prior submission
- Missing supplemental exhibits – Exhibits 1 through 21; required exhibits vary by Filing Type
- Most current version of the Application, Rate Template, Standard Exhibits not provided

π

Most Common Issues With Submitted Filings

› Intake (continued)

- Group Filings – companies identified in SERFF compared to those listed in the Rate Application do not match
- Inconsistent or incorrect Line of insurance (SERFF versus completed Application)
- Inconsistent or incorrect File Type (New Program, Rates, Rules, Forms)

41

π

Most Common Issues With Submitted Filings

› Intake (continued)

- Not all versions of the rates, rules, forms have been provided – provide three versions: current; red-lined; and proposed
- Provide two versions of the filing: pdf and an Excel version with formulas intact
- Missing Advisory Organization material

42

Most Common Issues With Submitted Filings

> Post-Intake

- Data reconciliation – Review and ensure that the various items identified in the *Prior Approval Rate Application - Data Quality and Reconciliation Checklist* (on CDI website) are followed and provided
- Actuarial selections – provide ample documentation, support, and justification for actuarial selections (trend, development, etc.). If something is not explained, lacks reasoning for selection, is unclear, lacks description, gives the filing reviewer any pause to ask the question, “Why did the company select X”, an Objection will be forthcoming. Provide such detail as part of the initial submission

Most Common Issues With Submitted Filings

> Post-Intake (continued)

- Objection responses – respond fully, completely, robustly, wholly, etc. to any/all Objections submitted by the Department in SERFF. Vague answers, incomplete answer, missing answers, partial answers, minimal answers, etc., will result in the Department re-asking the same question with a request for more detail to be provided, slowing down the filing review process
- Waiver of Deemers - when the Department requests a waiver of deemer be provided in SERFF, use the deemer waiver language provided by the Department to waive the deemer. Any language different than the deemer waiver language provided by the Department will slow down the filing review process and possibly result in the issuance of a Notice of Hearing

π

Most Common Issues - Parting Thoughts

- › Familiarize yourself with the California Insurance Code (CIC) and the California Code of Regulations (CCR)
- › Familiarize yourself with the *Prior Approval Rate Filing Instructions*
- › Familiarize yourself with the private passenger auto *Class Plan Application Instructions*

45

π

Most Common Issues - Parting Thoughts

- › Proposing a rate increase greater than +7.0% for personal lines or greater than +15.0% for commercial lines, is not a guarantee that there will be a hearing on the rate filing if there is an intervenor
 - If the proposed rate change request is well-supported, a stipulation agreement between the insurer and intervenor can be reached without the need to go to a hearing
- › Review the CAS or AAA Code of Professional Conduct
- › Fewer filing Objections = faster filing approval!

46

How Insurers Can Help Filing Reviews to Proceed More Quickly

47

π

Filing Documentation and Reviews

- › A filing is a communication, not merely the population of a checklist or completion of a rate application form
- › Consider the filing from an outsider's perspective – the Department does not have the insurer's institutional knowledge regarding its coverages, underwriting, claims and marketing practices, rate structure, data, etc.

48

Filing Documentation and Reviews

- › Document any and all changes that have occurred – This is necessary anytime there is a change in the insurer's coverage, underwriting practices, claims-handling, marketing strategies, catastrophe definition, etc. from or during the historical period reflected in the filing
- › Documentation of analysis – the filing is an opportunity for the insurer to provide persuasive and ample support for the desired revisions
- › Ensure that the communication in the filing is clear, consistent, and complete

Filing Documentation and Reviews

- › Start with a clear proposal
- › What is being proposed? Identify all changes up front upon filing submission, including those changes that are thought to be minor or immaterial – be specific
- › Clearly identify the location of the support for each change being requested (e.g. Exhibit #, Page # of the manual, etc.)
- › If the Department has to sort through dozens, hundreds, or thousands of filing pages to locate changes or the support for the proposed changes, that searching takes time

π

Filing Documentation and Reviews

- › Provide clear support
- › Provide narrative to explain why the insurer is making the proposal and how that proposal will apply to the insurer's book
- › For rate filings, provide statistical or actuarial support with every change to rate segments or relativities
- › Include a descriptive narrative with all tables, graphs, charts, etc., with clear explanatory column headers, footnotes, and labels

51

π

Filing Documentation and Reviews

- › ATUOA (avoid the use of acronyms) or at least first identify what the acronym stands for
- › Remember ASOP 41: "Clarity – The actuary should take appropriate steps to ensure that each actuarial communication is clear and uses language appropriate to the particular circumstances, taking into account the intended users."

52

π

Filing Documentation and Reviews

- › Provide clear and robust responses to all SERFF Objections
- › Address the question asked fully, whether you agree with the premise of the question or not
- › In a response, it can be helpful to restate the original question asked

53

π

Filing Documentation and Reviews

- › Where Objections require responses with numerical or statistical support, provide the response in Excel format (with formulas intact)
- › If submitting new exhibits in response to an Objection, use exhibit or page numbers different from those in the original filing or prior Objection responses

54

π

Filing Documentation and Reviews

- › Recognize that every filing stands on its own merits
- › Provide theoretically sound assumptions and methods (e.g. credibility standards)
- › Provide judgment-based selections that are justified and reasonable (e.g. new rating variables for which no data is available)
- › Provide selections based on the California regulatory standard of “most actuarially sound” (e.g. loss development, loss trend)

55

π

Filing Documentation and Reviews

- › *“This method was approved by the Department in our last filing”* is **NOT** acceptable as justification for the method being used in the current filing
- › *“This method was approved by your Department in Company X’s last filing”* is **NOT** acceptable as justification for the method being used in the current filing
- › **In approving a filing, the Department does not approve the individual methodologies or assumptions therein!**

56

π

Filing Documentation and Reviews

- › Department oversight in prior filings is **NOT** an acceptable justification for violating or being non-compliant with regulations
- › Grace given by the Department in prior filings is **NOT** an acceptable justification for violating or being non-compliant with regulations
- › Filings must be compliant with the California Insurance Code (CIC) and California Code of Regulations (CCR)

57

π

Filing Documentation and Reviews

- › CCR §2632.14(c) requires that insurers sell Good Driver Discount policies with the same terms and conditions and with the same options and services that the insurer offers and sells to the public for *any* other automobile insurance policy, including the terms for payment of premiums
- › No distinction between renewal business Good Driver Discount policies and new business Good Driver Discount policies
- › Premium down payment and installment plans must be filed

58

π

Filing Documentation and Reviews

- › CIC §1861.05(c) requires the Department to provide a Public Notice of rate changes
- › The amount of rate change to be identified on a Public Notice depends on one major element: what was/is the effective date of the last approved rates?
- › If the last approved rates are not yet applicable or in effect at the time the Department *receives* the “next” rate filing, the rate change of the new filing to be identified on the Public Notice will need to be in relation to the rate level that is applicable at the time the “next” rate filing is submitted/received

59

How Insurers
Can Help Filing
Reviews to
Proceed More
Quickly –
Class Plans

60

PPA Class Plans

› An insurer's class plan is comprised of three Mandatory Rating Factors, Optional Rating Factors, and Other "Non-Rating" Factors:

- 1st Mandatory Factor – Driver Safety Record (DSR)
- 2nd Mandatory Factor – Annual Mileage
- 3rd Mandatory Factor – Years Driving Experience (YDE)

PPA Class Plans

Allowable Optional Rating Factors

Vehicle Type	Vehicle Characteristics
Vehicle Performance Capabilities	Marital Status of the Rated Driver
Vehicle Use	Persistency
Percent Use of Vehicle by Rated Driver	Non-smoker
Multi-vehicle Households	Secondary Driver Characteristics
Academic Standing of the Rated Driver	Multi-policies with same or affiliated company
Relative Claim Frequency	Relative Claim Severity
Completion of Driver Training/Defensive Driving Courses by the Rated Driver	

π

PPA Class Plans

- › Other (“Non-Rating”) Factors
 - Increased Limits factors for liability coverages
 - Deductibles, Symbol and Model Year factors for physical damage coverages
 - Good Driver Discount for all coverages

- › Symbol and Model Year factors for *liability* coverages are considered Rating Factors and must be included in the sequential analysis for those coverages

63

π

PPA Class Plans

- › The three Mandatory Rating Factors may not be combined with each other

- › Years Driving Experience may be combined with the following Optional Rating factors: Percent Use, Academic Standing, Marital Status and Driver Training

- › Insurers employing verified mileage may combine Percent Use, Academic Standing, Marital Status, and Driver Training with the Second Mandatory Rating Factor

64

π

PPA Class Plans

- › CCR §2632.8 discusses the method for calculating the factor weight for both multiplicative and for additive rating factors
- › Hybrid rating structures that include both additive and multiplicative rating elements may add a complication to the calculation of factor weights
- › The onus is on the insurer to prove that its weights comply with the regulations
- › Absent that proof, the Department may ask that the insurer convert its rating structure to a fully additive or fully multiplicative rating structure

65

THANK YOU!

(We can't do it without you)

π

66

Perspectives on Current Events in California's Insurance Market

Observations from External Counsel

Spencer Y. Kook, Hinshaw & Culbertson LLP, Insurance Regulatory and Litigation Partner



© 2023 Hinshaw & Culbertson LLP

67

California's New Normal Impact

- ❖ Increased Focus upon Insurer Nonrenewal Plans and Changing Approach to U/W of New Business
- ❖ Increased Reliance upon “Change in Mix of Business” Rationale for Requiring Prior Approval?
 - Formally considered by regulation in various contexts. 10 CCR 2644.5 (Cat Adjustment); 2644.27(7) (LDF Variance); and 2644.27(8) (Trend Variance)
 - Expansion to other rate related contexts, such as change in payment plans (e.g., Bulletin 2022-10), mileage bands, and NR/eligibility requirements

© 2023 Hinshaw & Culbertson LLP



68

California's New Normal Impact, Part II

- ❖ Commissioner Lara's Pursuit of Expansion of California FAIR Plan Association's "Basic Property" Offerings
 - Order 2019-2 (Ordering FAIR Plan to Offer HO-3 Policy)
 - ◆ *Denied, in part, by court via writ of mandate – matter on appeal*
 - Order 2021-2 (Ordering FAIR Plan to Offer "Homeowner's Policy")
 - ◆ *"Homeowner's Policy (Property Coverages w/Premises Liability and Incidental W/C)*
 - ◆ *Subject of pending litigation*
- ❖ Impact of Expanded FAIR Plan
 - Impact upon Voluntary Market?
 - Increased Potential for Assessments?

Impact of COVID-19 on CA Rate Making

- ❖ CDI Embargo on PPA Rate Applications (*Lifted*)
- ❖ Impact of Commissioner Refund Orders
 - Civil Litigation Fallout
 - Injection of Issue into Prior Approval Rate Change Applications
- ❖ Increased Room for Debate on Trend Periods and Loss Costs

On-Deck Issues?

- ❖ Implementation of Mitigation in Rating Plans and Wildfire Risk Models Regulations
- ❖ Affinity Group Regulations?
 - Jan 28, 2020 Workshop re: CIC 1861.12 and 10 CCR sections 2632.5 and 2632.9 and contemplated adoption of section 2644.27.5
 - Mar 23, 2021 2nd Workshop
- ❖ Supergroup?

© 2023 Hinshaw & Culbertson LLP



71

Thank You

Spencer Y. Kook

213-614-7359 | skook@hinshawlaw.com



72