

EXAM 6 – UNITED STATES, FALL 2015

2. (2.5 points)

a. (1 point)

Identify four reasons why a state might disapprove a rate or form filing.

b. (0.5 point)

Describe one argument in favor of having a no-file law in every U.S. state.

c. (1 point)

A personal lines insurer files rates with the state department of insurance 45 days after it begins to use them. The insurer is not in compliance with the state's rate filing requirements.

Identify two types of rate filing laws that could exist in this state, and briefly describe how the insurer's filing activity would not comply with each.

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QUESTION 2	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: A1
SAMPLE ANSWERS	
Part a: 1 point	
<p>Any four of the following:</p> <ul style="list-style-type: none"> • Contrary to public interest or Rate is unaffordable to insureds • Illegal or <ul style="list-style-type: none"> ○ Fraud or ○ Collusion or ○ Violates law/statute. • Unfairly discriminatory or <ul style="list-style-type: none"> ○ Unfair or ○ Inequitable or ○ Disparate impact to protected group • Excessive or Rate too high • Rate change increase exceeds state cap • Inadequate or <ul style="list-style-type: none"> ○ Rate too low or ○ Fails to meet minimum solvency standard or ○ The rate is not an accurate estimate of the expected value of future costs or ○ The rate does not provide for all costs associated with the transfer of risk or ○ The rate does not provide for the costs associated with an individual risk transfer • Insufficient supporting documentation or <ul style="list-style-type: none"> ○ Errors in documentation provided in filing or ○ Did not comply with all the state's filing requirements • The following item is not allowed/approved by regulator or specific item is required to be used: <ul style="list-style-type: none"> ○ Rating variable or ○ assumption or ○ methodology or ○ model • Filing did not meet filing deadline • Political or Appointed commissioner doesn't want to lose job and was told "no rate increases over x%" by person who made appointment • Rate is not actuarially sound • State mandated rates. Any deviation is denied. • Flex Rating –prior approval not granted when rate exceeds range percentages • The company is restricted from writing this business since they are under DOI supervision • The homeowner policy form excludes properties with insurance value under \$150K • Form is misleading or <ul style="list-style-type: none"> ○ Form causes misunderstanding or ○ Form's language is ambiguous or ○ Form is not written in plain English • Form lacks required provisions (policy cancellation provisions) or coverage • An insurer requires the purchase of one coverage with another (tie-in). i.e. requires auto 	

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policy when buying a homeowners policy
Part b: 0.5 point
Any one of the following: <ul style="list-style-type: none">• Market competition keeps insurance pricing fair• Competition ensures the insurers provide actuarially sound rates• With no-file, consumers will benefit as insurers are free to compete and competition will increase availability and affordability as companies who best match rate to risk will win the most policyholders• Theory that free competition would regulate insurance. If a company's rates are too low, they risk insolvency via adverse selection. If rates are too high, they risk being priced out of the market.• Will reduce the costs of filings for insurers (and these costs get passed down to policyholders). Competition will naturally ensure rates are fair.• It would reduce costs to both insurers and regulators as insurers would not need to spend money on filings and regulators could use time/budget on other matters concerning insurance regulation (e.g. solvency)• Competition is the best rate regulation. It can motivate the high risk people to control risk, and motivate insurers to be more creative and accurately estimate the loss• No-file law allows free market competition to regulate insurance co rates, gives companies greater flexibility to react to changes in their loss cost or rating factors to gain competitive advantage. Can provide more innovative products quicker to market.• Having no file laws would reduce the work of states' departments of insurance since they would not need to approve of every rate change. This would lead to lower expenses which would benefit taxpayers. Also competition is likely to keep rates reasonable.• It would make things easier on insurers (who write in multiple states) if every state would follow the same rules. No-File would allow insurers to implement rate changes across all states simultaneously, rather than whenever each individual state got to it.• No file law allows insurers to react to market forces quickly without waiting for approval to use new rates. This helps competition and benefits customers as well as reduces regulatory cost. No concern of excessive rate since regulator can still demand withdrawal of new rates later.• A no-file system allows the insurer to lower rates in a competitive market without fear that it will have trouble raising them later.
Part c: 1 point
Any two of the following: Prior-Approval <ul style="list-style-type: none">• Insurer must file rates and receive approval notice from the state DOI before using rates, can't use until approval is received.• Rates must be approved BEFORE use File-and-Use <ul style="list-style-type: none">• The insurer must file for rate changes but allowed to use the rates immediately or after a short waiting period. The insurer files rates 45 days after use. Hence it is not in compliance.• Rates must be filed first with state before use

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Use-and-File

- Insurer may use the rates as they want and file within a specified period after the rates are put in use. The specified period may be shorter than 45 days, say 30 days. Thus the insurer is not in compliance.

Flex Rating

- Did not comply because insurer's rates are outside of acceptable change and they used them anyway without prior approval.

State-Mandated Rates

- Insurer cannot do business legally in state if the insurer used a rate in their filing that is not the mandated rate.

EXAMINER'S REPORT

This question tested candidates' knowledge of the general requirements of insurance rate filings, rate filing laws, and how rates are regulated by state insurance regulators.

Part a

Many candidates did well listing reasons for state disapproval of a rate or form filing. Common errors included simply stating discrimination without qualifying their answer by stating 'unfairly' discriminatory or discriminate against 'protected' classes. Other candidates made the error of repeating similar answers, such as the rate is excessive and the rate is too high.

Part b

This question was open to interpretation and allowed for many different reasonable answers. A common error made by candidates was that they were able to provide an impact of the No-File law system (i.e. cost/labor reduction, time efficiency, etc.) but did not provide a specific reason for favoring the no-file law (e.g., the cost savings would be passed down to insureds or open competition would lead to fair insurance pricing).

Part c

The question required application of the specific rate filing laws chosen to the situation presented in the question, specifically the violation/lack of compliance of the rate law. Common errors included omitting or incorrectly stating a rate filing law. There were some candidates who made the error of switching a violation of the Use-and-File law with File-and-Use. Others simply stated a definition of the rate law that did not demonstrate how the insurer was not in compliance with the type of rate filing law specified.