



# *NC Property Insurance Rate Making Process*

*Committee on Regulatory and Rate Issues in Insurance*

*Legislative Research Commission*

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# *Property Insurance Rate Making - Overview*

## **Statutorily defined roles**

- North Carolina Rate Bureau(NCRB)
  - Calculates and files proposed rates
- North Carolina Dept. of Insurance
  - Reviews rate filings & sets rates
  - Ensures statutory compliance

## *Property Insurance Rate Making - Overview*

### **North Carolina Rate Bureau(NCRB)**

- Proposes rates for NC residential property insurance
- Rates filed on election of member companies (no required filing)
- Since 1993 – Eight homeowners' insurance rate filings

# *Property Insurance Rate Making - Overview*

## **North Carolina Dept. of Insurance**

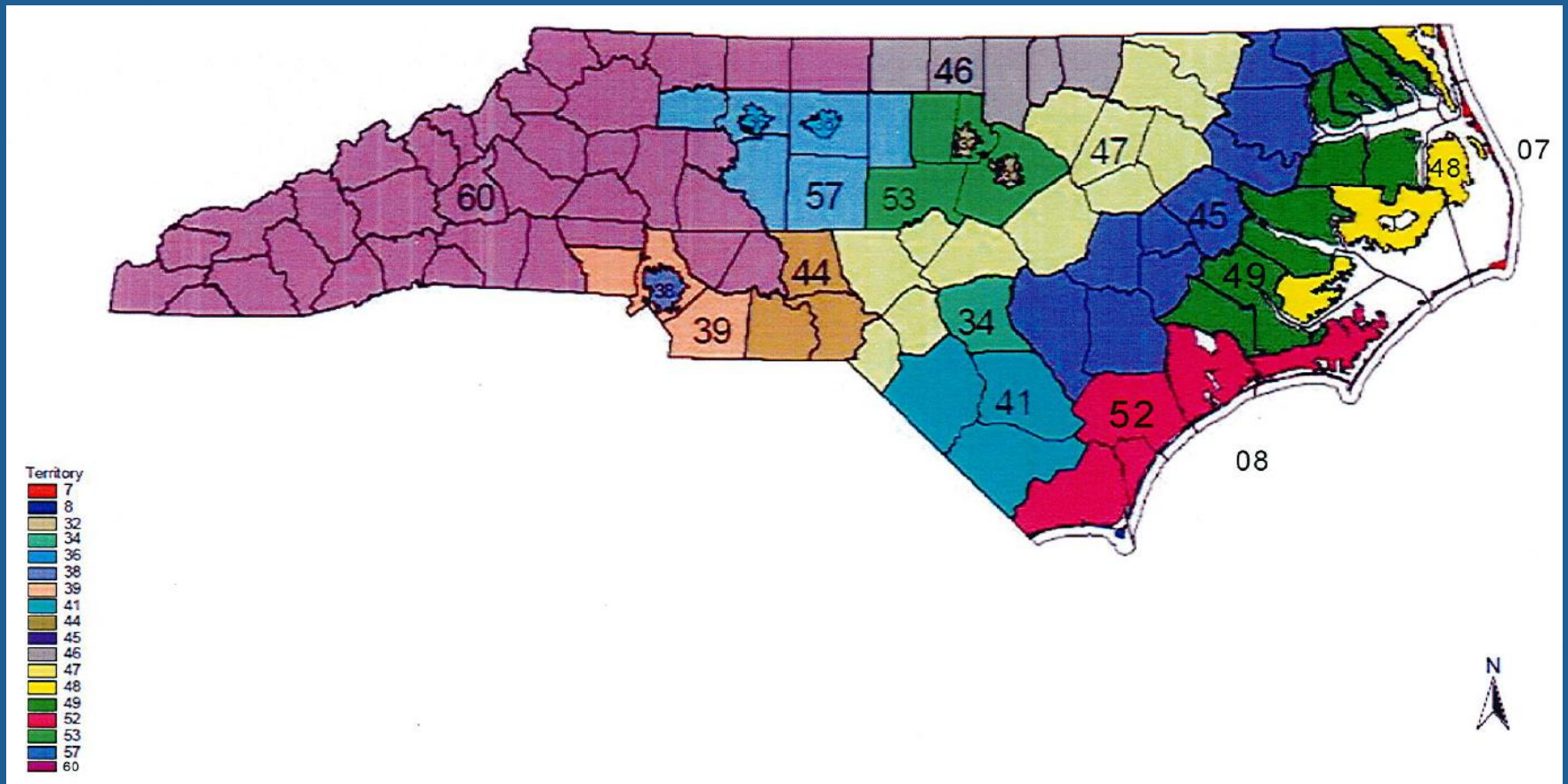
- Reviews rate filings submitted by NCRB
- Ensures rates are:
  - “...not excessive, inadequate, or unfairly discriminatory.” (per GS 58-36-10.(1))
- Commissioner may order a hearing if contends filing fails to comply with requirements (GS 58-36-20.(a))
- Commissioner establishes overall rate, between existing and proposed rates

## **Elements of Premium Determination**

**Elements used by homeowners' insurance companies in determining Homeowners' Insurance Premium:**

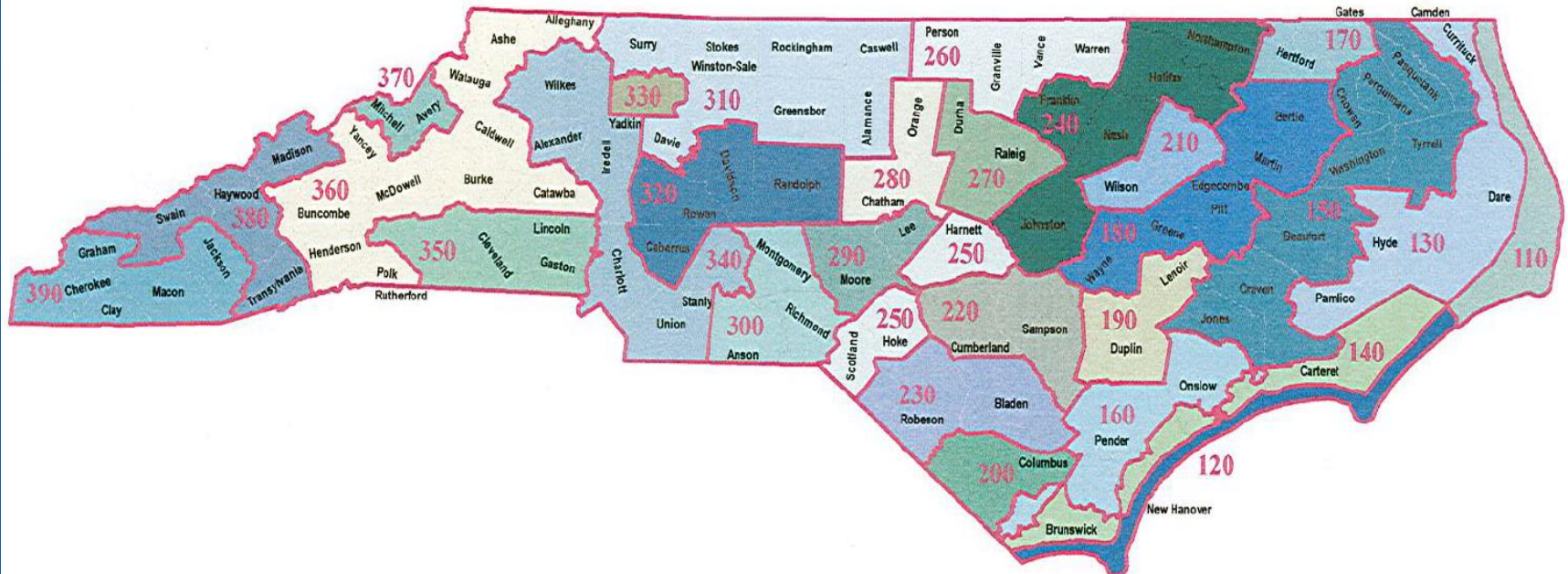
- Territory Code (county or city locale)
- Protection Class (1-10)
- Construction of the home (frame or masonry)
- Type and extent of coverage
- Amount of insurance
- Amount of deductible
- Optional coverages
- Claims Experience

## NCRB Homeowners Territories (pre-6/1/15)





# Homeowners Territories Effective June 1, 2015



# *NC Rate Making Process – Homeowners Rate Filings*

1. NC Rate Bureau (NCRB) files with Commissioner (GS 58-36-15):
  - rates, loss costs, classification plans, rating plans and rating systems used by its members
  - Rate filings are made on as needed basis, per decision of NCRB



## *NC Rate Making Process – Homeowners Rate Filings*

2. NCRB gives public notice of filing within 10 business days of filing (GS 58-36-120)
  - Notice must state that COI may or may not schedule a hearing
  - Same info from Notice must be posted on DOI and NCRB websites within 3 days after the filing

## *NC Rate Making Process – Homeowners Rate Filings*

3. Thirty days before a Notice of Hearing issues, the DOI shall receive public comments regarding the rate filing.
  - The public comments may be received by email, mail, or in person, and
  - The public comments shall be shared with the NCRB. (G.S. 58-36-15(b)).

## *NC Rate Making Process – Homeowners Rate Filings*

4. A rate filing must contain supporting data as required by statute (G.S. 58-36-15 (e), (h)) and by regulations (11 NCAC 10.1105).
  - The Rate Bureau must include in the filing all testimony, exhibits and other information upon which it will rely at a hearing (G.S. 58-36-15(i)).

## *NC Rate Making Process – Homeowners Rate Filings*

5. Within 50 days of the filing, the COI must issue a Notice of Hearing:
  - a) Specifying the issues with the filing, and
  - b) Fixing a date for the hearing (G.S. 58-36-20(b)).

***Note:** Only issues specified in the notice of hearing may be addressed at the hearing.*

- If the Notice is not timely issued, the filing is “deemed approved,” meaning it automatically takes effect by operation of law.

## *NC Rate Making Process – Homeowners Rate Filings*

6. At least 20 days before the hearing, DOI must file its own testimony, exhibits, and information it intends to rely on at the hearing (G.S. 58-36-15(i)).

## *NC Rate Making Process – Homeowners Rate Filings*

7. The hearing is litigation by adversarial parties (NCRB and DOI), who are represented by counsel.
8. The Commissioner or his designee sits as hearing officer.
  - May not consult with or discuss the rate filing with anyone inside or outside of DOI except those designated to assist him on the case (e.g. his Chief Actuary).
9. The hearing operates just like a trial, and, once begun, a hearing must proceed without undue delay (G.S. 58-36-20(a)).

## *NC Rate Making Process – Homeowners Rate Filings*

10. NCRB has the burden of proving that the proposed rates are not excessive, inadequate, or unfairly discriminatory (G.S. 58-36-20(a)).
11. If after a hearing the COI finds the proposed rates to be excessive, he shall set his own rates between the existing rates and the rates proposed in the filing.(G.S. 58-36-20(a)).



## *NC Rate Making Process – Homeowners Rate Filings*

12. The COI must issue his order within 45 days after the completion of the hearing.
  - If no order is issued within 45 days, the filing is deemed approved (G.S. 58-36-20(a)).
13. After the COI issues his order, the Rate Bureau may appeal directly to the Court of Appeals (G.S. 58-36-25(a); G.S. 58-2-80).

## *NC Rate Making Process – Homeowners Rate Filings*

14. If the Rate Bureau appeals, it may implement its proposed rates during the appeals process
- Member companies must escrow the difference between the COI's ordered rates and the Rate Bureau's implemented rates.
  - Upon a final determination by the appellate courts or upon settlement between the Rate Bureau and the COI, the COI will order the escrowed funds to be distributed appropriately (either to the consumers who have overpaid or to the companies (G.S. 58-36-25(b))).

## *NC Rate Making Process – Homeowners Rate Filings*

15. Once the COI's ordered rates go into effect (become Rate Bureau manual rates), all companies must use these rates.
16. If the rates do not fit with an individual company's underwriting criteria, the company has two options:
  - a) **Deviations:** A company may deviate (or discount) from the manual rates.
  - b) **Consent to Rate (CTR):** A company may also charge higher rates than the Rate Bureau manual rate on individual risks with the policyholder's written consent.

# *NC Rate Making Process – Insurer Options*

- **Deviations:** A company may deviate (or discount) from the manual rates. In order to deviate, a
  - company must file the proposed deviation with the Rate Bureau and with the COI for approval.
  - The proposed deviation must be based on “sound actuarial principles” to be approved (G.S. 58-36-30(a)).
  - Companies in North Carolina do deviate (offer discounts) on HO insurance although probably not in the coastal communities.
- **Consent to Rate (CTR):** A company may charge higher rates than the manual rate if it:
  - Obtains the written consent of the insured on the initial CTR form.
  - Complies with applicable statute and code requirements:
    - Include required content on CTR form and on renewals and endorsements with subsequent rate increases
    - Does not exceed 250% of manual rate

# *NC Rate Making Process – CTR Concerns*

- Once the initial written consent of the insured is obtained, the company is not required to obtain consent on any future renewals or endorsements (up to 250%).
- Unlike deviations:
  - CTR policies/rates need not be filed with the COI for approval
  - No requirement that CTR rates be based on sound actuarial principles.
- Observations:
  - Companies have been using CTR to write homes in riskier areas, such as the coastal areas.
  - There is some evidence that companies are using CTR as a pricing mechanism rather than as a means to properly rate individual policies that do not fit the manual rate underwriting criteria (e.g. the \$1 CTR for which one company obtained CTR signatures from a good portion of its N.C. clients).
    - *See G.S. 58-36-30(b) and 11 NCAC 10.0602 and 10.0606 for CTR statutes and regulations.*

- Most Recent Homeowners' Insurance Rates
  - NCRB filed with NCDI on January 3, 2014
  - Requested rate increase of 25.6%
- Commissioner convened hearing October 2015 to review NCRB property insurance rate filing (per GS 58-36-20.(a))
- Commissioner ordered 0% Statewide aggregate rate increase
  - Some territories rates' dropped, some rose, overall unchanged
- NCRB appealed Commissioner's ordered rate (per GS 58-36-25)
- Court of Appeals upheld Commissioner's Order
- NCRB filed a petition for the Supreme Court to review the case

## *NC Rate Making Process – Lowest Rates in Region*

Under our current ratemaking system:

- NC has the **lowest average homeowners insurance prices** for median cost homes (\$200-300,000) for HO-3 policies (most widely available policy form/std policy form) of all SE coastal states
- NC consistently has among the lowest HO rates of all Southeast coastal states (NC to TX)
- NC coastal rates are ***lower than all*** of our neighboring coastal states
- Even with these low rates, NC has 126 insurers writing homeowners insurance in the state



# *NC Rate Making Process – Lowest Rates in Region*

| STATE             | AVE. HO RATE |
|-------------------|--------------|
| North Carolina    | \$1,012      |
| Georgia           | \$1,049      |
| United State Ave. | \$1,049      |
| South Carolina    | \$1,273      |
| Alabama           | \$1,451      |
| Mississippi       | \$1,607      |
| Texas             | \$1,883      |
| Florida           | \$2,016      |
| Louisiana         | \$2,030      |