

PRESENTATION TO THE  
LEGISLATIVE RESEARCH COMMISSION  
BY THE NORTH CAROLINA RATE BUREAU

APRIL 7, 2016

# Reminders

- ▣ The Rate Bureau does not lobby.
- ▣ The Rate Bureau is not a trade association and does not speak for the industry except as required by statute.
- ▣ The Rate Bureau's duty is to comply with statutes.
- ▣ The 2014 Homeowners filing remains in litigation.

# Outline

- ▣ A look at the statutory organization of the Rate Bureau.
- ▣ A review of the Rate Bureau and its statutory responsibilities.
- ▣ What is the residential property regulatory process?
- ▣ What is the residential property rate promulgation process?

## 58-36-5 “Membership...”

“Before the Commissioner shall grant permission to any stock, nonstock, or reciprocal insurance company or any other insurance organization to write in this State...it shall be a requisite that they shall subscribe to and become members of the Bureau”

## 58-36-5(b,c) “Membership...”

- ▣ Each member of the Bureau...shall...be entitled to one representative and one vote in the administration...”
- ▣ They (members) shall...elect a governing committee...”
- ▣ “The expense...shall be borne by its members...”

# What is Residential Property?

- ▣ NCGS 58-36-1...residential real property with not more than four housing units located in this state and any contents thereof and valuable interest therein and other insurance coverages written in connection with the sale of such property insurance...

These programs fall within the Rate Bureau's statutory jurisdiction:

- ▣ Homeowners Policies
- ▣ Dwelling Fire and Extended Coverage Policies
- ▣ Mobile Homeowners Policies

# What is the Rate Bureau's role in the residential insurance market?

- ▣ NCGS 58-36-1(3)....The Bureau shall promulgate and propose rates against loss to residential real property....
- ▣ NCGS 58-36-5(a)...before the Commissioner shall grant permission to any...insurance company...to write in this state...it shall be a requisite they shall subscribe to and become members of the Bureau...
- ▣ 58-36-30...no insurer and no officer, agent or representative of an insurer shall knowingly issue or deliver or knowingly permit the issuance or delivery of any policy of insurance in this state that does not conform to the rates, rating plans, classifications, schedules, rules and standards made and filed by the Bureau.

# What is the regulatory process?

## Part I

- ▣ NCGS 58-36-4(d)...The Commissioner shall adopt or approve reasonable rules, including rules providing statistical plans, for use thereafter by all insurers in the recording and reporting of loss and expense experience...All insurers, for lines of insurance that require data to be reported, shall report their data...
- ▣ NCGS 58-36-10(1)...Rates or loss costs shall not be excessive, inadequate or unfairly discriminatory.



# What is the regulatory process?

## Part II

- ▣ NCGS 58-36-10(2)...Due consideration shall be given to actual loss and expense experience...to prospective loss and expense experience...to the hazards of conflagration and catastrophe...to a reasonable margin for underwriting profit and to contingencies... to dividends...to investment income...and to all other relevant factors...
- ▣ NCGS 58-36-10(4)...Risks may be grouped by classifications...rates may be modified to produce rates for individual risks in accordance with rating plans...may measure any differences among risks that can be demonstrated to have a probable effect upon losses or expenses...

# What is the regulatory process?

## Part III

- ▣ NCGS 58-36-15(a)...Each rate or loss costs filing shall become effective on the date specified in the filing, but not earlier than 210 days from the date the filing is received by the Commissioner...
- ▣ NCGS 58-36-15(c)...The Bureau shall maintain reasonable records...of the data, statistics or information collected...
- ▣ NCGS 58-36-15(i)...the Bureau shall file...all testimony, exhibits, and other information on which the Bureau will rely...the Department shall file all testimony...20 days in advance of the convening date of the hearing.

# What is the regulatory process?

## Part IV

- ▣ NCGS 58-36-20(a)...At any time within 50 days after the date of any filing, the Commissioner may give written notice....to what extent...the filing fails to comply...and fixing a date for a hearing...

# The Rate Promulgation Formula

$$\text{Premiums} = \text{Prospective Losses} + \text{Prospective Expenses} + \text{Fair Profit}$$

# Rate Promulgation

- ▣ Statutory Requirements:
  - Not excessive
  - Not inadequate
  - Not unfairly discriminatory

# Losses

Losses used in rate promulgation are prospective with premiums calculated using historical experience and forecasts of future events.

Losses generally fall into two categories:

1. Losses that occur independently and frequently.
2. Losses that occur infrequently and are catastrophic in that they impact a large number policyholders in a short period of time.

Since both frequency and severity of losses is included in calculations, the first category is relatively easy to project, the second more difficult.

# Expenses

- ▣ General and other acquisition expense
- ▣ Commissions and taxes
- ▣ Loss adjustment expense
- ▣ Net cost of reinsurance
- ▣ Compensation for assessment risk

# Profit

The Rate Bureau uses a fair rate of return/cost of capital for similar businesses as the basis for profit - the Federal Constitutional standard.



# Rate Promulgation Summary

- ▣ Data is collected by the Commissioner's statistical agents.
- ▣ The data is aggregated by the Rate Bureau as a "single" insurance carrier.
- ▣ Premiums are "individualized" by the class plan.

## Average Premiums for Homeowners in Coastal States (2013)

State (Ranking)	Average Premium	State (Ranking)	Average Premium
1. Florida	\$2,115	17. Washington DC	\$1,150
2. Texas	1,837	21. New Jersey	1,050
3. Louisiana	1,822	22. Georgia	1,044
5. Mississippi	1,395	<b>23. North Carolina</b>	<b>1,008</b>
7. Rhode Island	1,334	32. Virginia	911
8. Alabama	1,323	33. Maryland	904
9. Connecticut	1,263	36. New Hampshire	885
10. Massachusetts	1,263	41. Vermont	814
12. South Carolina	1,214	42. Maine	776
13. New York	1,213	45. Delaware	709
		<b>Countrywide</b>	<b>\$1,096</b>

Source: Insurance Information Institute

# Average Renter's Insurance Premium

- ▣ The highest is Mississippi at \$250.
- ▣ North Carolina is 46<sup>th</sup> at \$146.
- ▣ South Dakota is lowest at \$120.
- ▣ The countrywide average is \$188.

Source: Insurance Information Institute