

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

INSURANCE BUREAU

FIRE AND INLAND MARINE INSURANCE RATES

(By authority conferred on the commissioner of insurance by sections 210 and 2674 of Act No. 218 of the Public Acts of 1956, as amended, being SS500.210 and 500.2674 of the Michigan Compiled Laws)

R 500.1301 Definitions.

Rule 1. As used in these rules:

(a) "Classification" means a grouping of individuals or risks on the basis of 1 or more characteristics for purposes of measuring and rating differences in anticipated losses or expenses, or both. For purposes of these rules, a classification shall not include a grouping of individuals or risks solely for statistical data gathering purposes.

(b) "Code" means Act No. 218 of the Public Acts of 1956, as amended, being S500.100 et seq. of the Michigan Compiled Laws, and known as the insurance code of 1956.

(c) "Commissioner" means the Michigan commissioner of insurance and the designees of the commissioner.

(d) "Loss portion" means that portion of a rate which is attributable to provisions for incurred losses and allocated loss adjustment expenses.

(e) "Loss ratio" means, for purposes of R 500.1307(4)(e), any of the following ratios for a specified time period, as appropriate for the context of evaluation:

(i) The ratio of actual incurred losses and allocated loss adjustment expenses to total earned premiums at collected rate levels.

(ii) The ratio of actual incurred losses and allocated loss adjustment expenses to total earned premiums at current rate levels.

(iii) The ratio of reasonably anticipated incurred losses and allocated loss adjustment expenses to total estimated earned premiums at proposed rate levels.

(f) "Private residential property insurance" means insurance for an individual's residence, including insurance for an owner-occupied condominium unit, insurance for owner-occupied residential dwellings containing 4 or fewer apartments or condominium units, and insurance for a tenant of a room, an apartment, or a house, provided by a Michigan standard policy as set forth in section 2832 of the code and, when contained in or indorsed to a Michigan standard policy providing insurance for an individual's residence, other insurance intended primarily to insure residential property, obligations, and liabilities. Private residential property insurance shall not include insurance intended to insure commercial, industrial, professional, or business property, obligations, or liabilities.

(g) "Rate differential" means either the ratio of rates for any 2 rating cells or the absolute difference in rates for any 2 rating cells, whichever is applicable for a particular rating system.

(h) "Rating cell" means a group of individuals or risks for which a single rate is determined when 2 or more rating classifications are combined to define a population of individuals or risks for rating purposes.

(i) "Relativity" means either the ratio of rates for any 2 rating classifications or the absolute difference in rates for any 2 rating classifications, whichever is applicable for a particular rating system.

(j) "Uncertainty of loss" means a measure of the nature and the extent of the variability of actual losses for a group of individuals or risks from the mean anticipated loss for the group and includes other similar measures of risk.

(k) "Underwriting" means the offer or refusal to insure, the offer or refusal to continue to insure, or the limitation of the amount of coverage available to an individual, risk, or class of individuals or risks.

History: 1980 AACS.

R 500.1302 Applicability.

Rule 2. These rules apply to a person who is, or may hereafter be, subject to the jurisdiction of the commissioner of insurance.

History: 1980 AACS.

R 500.1303 Construction of rules.

Rule 3. These rules shall be construed to prohibit insurers from establishing and using casualty insurance rates that are excessive, inadequate, or unfairly discriminatory and shall be construed to protect insurance consumers from the adverse consequences of such rates.

History: 1980 AACS.

R 500.1304 Reporting guidelines.

Rule 4. Subject to section 2664 of the code, the commissioner may issue reasonable guidelines and procedures relating to the collection and reporting of data for purposes of evaluating rates and classifications or the extent and nature of competition. The guidelines and procedures shall provide for the option of using reasonable sampling techniques, when practicable, provided that any data thereby obtained are reportable in a uniform and consistent manner as may be required.

History: 1980 AACS.

R 500.1305 Excessive rates.

Rule 5. (1) For the purposes of section 2603(1)(d) of the code, a rate is unreasonably high for the insurance coverage provided if it is unreasonably high in relation to anticipated losses or expenses, or both, or to the uncertainty of loss for the insurance coverage provided.

(2) A determination regarding the existence of a reasonable degree of competition, with respect to the classification, kind, or type of risks to which a rate is applicable, shall give due consideration to all of the following:

- (a) The relevant market for the coverage or the type of insurance to which the rate applies.
- (b) The number of insurers and the number of self-insurers actively engaged in writing or providing the coverage or type of insurance in the relevant market.
- (c) The distribution of rates and market shares for such insurers in the relevant market. Market shares may be measured either by premiums or exposures.
- (d) Past and prospective trends in the availability of coverage and coverage options for insurance of that type in the relevant market.
- (e) Profits attributable to insurance of that type in relation to the profitability of other types of insurance, to the uncertainty of loss for that and other types of insurance, and to the amount of capital and surplus funds available to support premium writings for that and other types of insurance.
- (f) The ability and potential for firms to enter and exit the relevant market and for financial capital and surplus funds to be allocated to, and to be removed from, the relevant market.

History: 1980 AACS.

R 500.1306 Inadequate rates.

Rule 6. For purposes of section 2603(1)(d) of the code, both of the following provisions apply:

- (a) A rate is unreasonably low for the insurance coverage provided if it is unreasonably low in relation to anticipated losses or expenses, or both, or to the uncertainty of loss for the insurance coverage provided.
- (b) An applicant who is in good faith entitled to procure insurance through ordinary methods is an individual or risk in the population, defined by the classification to which the rate applies, that exhibits a willingness and a financial ability to purchase such insurance at the rate in question.

History: 1980 AACS.

R 500.1307 Unfairly discriminatory rates.

Rule 7. (1) For purposes of section 2603(1)(d) of the code, a rate for a coverage is unfairly discriminatory in relation to another rate for the same coverage if the differential between the rates is not reasonably justified by differences in mean anticipated losses or expenses, or both, or by differences in the uncertainty of loss for the individuals or risks to which the rates apply. A reasonable justification shall be supported by a reasonable classification system, by sound actuarial principles, and by actual and credible loss and expense statistics or, in the case of new coverages and classifications, by reasonably anticipated loss and expense experience.

(2) A rate is not unfairly discriminatory because it reflects differences in anticipated expenses for classifications of risks with similar anticipated losses or because it reflects differences in anticipated losses for classifications of risks with similar anticipated expenses.

(3) A reasonable classification system is a system designed to group individuals or risks with similar characteristics into rating classifications which are likely to identify significant differences in mean anticipated losses or expenses, or both, between the groups, as determined by sound actuarial principles and by actual and credible loss and expense statistics or, in the case of new coverages or classifications, by reasonably anticipated loss and expense experience.

(4) Sound actuarial principles shall include, but not be limited to, all of the following principles:

(a) That data used in developing classifications and rates are derived from the experience of a population or sample of risks that is sufficiently similar to the anticipated insured population so that the statistics thereby obtained can reasonably be expected to produce representative and reliable estimates of the anticipated loss and expense experience for the insured population and so that such statistics are calculated in a manner that is suitable to their intended use.

(b) That a reasonable predictive relationship can be demonstrated to exist between a characteristic used in defining a rating classification and anticipated losses, anticipated expenses, or the uncertainty of loss for the risks to which the classification applies.

(c) That if rates for individual rating cells are calculated by means of arithmetic combinations of relativities for the classifications defining those cells, the relativities are combined in a manner that equitably reflects the anticipated loss and expense experience for those rating cells.

(d) That sampling techniques used in developing classifications and in estimating loss and expense experience are suitable to their intended application.

(e) That with regard to private residential property insurance, rates for an insurance coverage provided are established in a manner that can reasonably be anticipated to produce loss ratios which are substantially uniform among the classifications, kinds, or types of individuals or risks to which the rates apply. Evaluation of loss ratios shall make appropriate adjustments for differences in deductibles and limits of liability among insureds, for expense provisions which are not allocated to premiums on a percentage-of-premium basis, and for differences in contingency factors among classifications and shall give due consideration to the credibility of experience for groupings of individuals or risks, to trends in past and prospective loss experience, and to historical patterns between projected and realized loss ratios. For purposes of this subrule, "substantially uniform" means the absence of significant variations among loss ratios. This subrule shall not be construed to prohibit the use of appropriate pure premium relativities to estimate or evaluate rate relativities.

(5) Data of an insurer or rating organization used in calculating actual and credible loss statistics shall be of sufficient volume, or shall be combined in an appropriate manner with suitable data of sufficient volume, so that the statistics thereby calculated are reasonably credible and can reasonably be anticipated to produce reliable estimates of anticipated loss and expense experience.

(6) Data for reasonably anticipated experience used in calculating rates for new coverages and in establishing new classifications shall, to the extent possible, be based on actual experience for similar coverages and for groups of risks similar to the proposed classification and shall be of sufficient volume so that statistics thereby produced can reasonably be anticipated to produce reliable estimates of loss and expense experience.

(7) Relevant external information, including general economic data and other indicators, may be given due consideration in evaluating or projecting loss and expense experience.

History: 1980 AACS.

R 500.1308 Expense provisions.

Rule 8. (1) The expense portion of a rate shall, with regard to each category of expense, be examined and evaluated independently of the loss portion of the rate. Expenses shall not be presumed to change by the same percentage as losses are anticipated to change.

(2) Predictions of future expense costs shall give due consideration to trends and changes in historical expense levels, in actual or reasonably allocated expenses incurred, and in external expense indices and indicators.

History: 1980 AACS.

R 500.1309 Expense allocation.

Rule 9. (1) Expense provisions for each category of expenses shall be reasonably allocated among classifications in a manner that equitably reflects variations, if any, in the manner in which such expenses are anticipated to be incurred with respect to the groups of individuals or risks defined by those classifications. Expenses, other than allocated loss adjustment expenses, shall not be presumed to be incurred proportionally to classification relativities based on anticipated losses.

(2) Expense provisions for premium taxes, if any, shall reflect the applicable premium tax rate.

(3) Expense provisions for each other category of expenses shall be reasonably allocated among classifications based on losses, coverages, exposures, or other basis that equitably measures the variations, if any, in the manner in which such expenses are anticipated to be incurred with respect to the classifications. Expense allocation methods may include percentage-of-premium, uniform-per-coverage, uniform-per-exposure, or other basis, as appropriate and justified.

History: 1980 AACS.

R 500.1310 Exemptions from rules.

Rule 10. (1) The commissioner may, by order, exempt a coverage or type of insurance from the application of 1 or more individual rules if he or she determines that application of the rule or rules will be inappropriate based on the unique characteristics of the coverage or type of insurance.

(2) An insurer or group of insurers may, in writing, request that the commissioner by order exempt a particular coverage or type of insurance from the application of 1 or more of these rules pursuant to subrule (1) of this rule. An insurer or group of insurers filing a request under this rule may, within 30 days after receiving written notice by the commissioner of a denial of the request, appeal to the commissioner. After an evidentiary hearing upon not less than 10 days' written notice to the appellant or appellants, the commissioner shall affirm or reverse the decision.

History: 1980 AACS.