TECHNICAL ADVISORY

TA 120 **June 23, 1998**

SUBJECT: June 17, 1998, Louisiana Insurance Rating Commission Meeting
No Pay No Play Rate Approvals

BACKGROUND: Following are some highlights of the regular June meeting of the Louisiana Insurance Rating Commission. Included in the rate approvals were a significant number of automobile rate reductions as a result of Act 1476, known as the No Pay No Play law.

MAIN POINTS: 1. The Louisiana Insurance Rating Commission (LIRC) approved a large number of automobile liability rate reductions mandated by Act 1476, the No Pay No Play law. Companies are required to reduce their current liability rates a flat 10 percent or reduce liability rates with actuarial justification that each rating territory averaged a 10 percent overall liability rate reduction. The cumulative affect of the 10 percent liability reduction throughout the entire Louisiana automobile market approaches an estimated $100 million in premium cost savings. The vast majority of 10 percent rate reductions will be effective September 6, 1998, when the statutory provisions of Act 1476 become effective.

2. In addition to the mandatory 10 percent reduction in liability rates, the No Pay No Play law included an optional provision for insurance companies to file for economic loss only uninsured motorists coverage with a minimum rate reduction of 20 percent. Although the law required a 20 percent minimum reduction, the LIRC has calculated the actuarial reduction for economic loss only uninsured motorists to be somewhere between 45 percent and 55 percent reduction. As a result, the LIRC rejected a number of insurance companies filings for the minimum reduction of 20 percent as not actuarially justified. A significant number of companies had economic loss only uninsured motorists rate reductions approved with reductions in the 45 percent - 55 percent range.

The ISO economic loss only uninsured motorists coverage was approved with a reduction of 55 percent. If all uninsured motorists coverage were converted to economic loss only, the premium reduction would be approximately $100 million. However, since companies have an option whether or not they want to offer economic loss only uninsured motorists coverage, and consumers have the option whether or not they want to purchase the coverage, the actual impact will be reduced.

The No Pay No Play law also mandates a new UM Selection Form. IIAL is preparing a Technical Advisory on the new UM form which will be mailed to member agencies in the near future.

3. The Firemans Fund Insurance Companies filed for a direct marketed homeowners program under the American Automobile Insurance Company. Proposed base rates for the program would have been 32 percent - 40 percent lower than the regular homeowners program through agents. IIAL voiced objections at the Rating Commission meeting on the basis that the company could not justify cost savings from eliminating agents, which would result in lower rates for the direct program. The LIRC disapproved the Firemans Fund rate filing.

IIAL will be asking the LIRC to require companies to justify any rate differences between traditional agent programs and direct company marketing programs.

IIAL takes the position that the cost savings of such programs are minimal and that rate differences are generally not actuarially justified.

4. The LIRC approved guidelines for approval of workers' compensation waiver of subrogation endorsements. LIRC guidelines for blanket waivers of subrogation will be two percent of the total premium. LIRC guidelines for specific named waiver of subrogation endorsements will be five percent of the premium generated by the contracts named in the waiver. Companies filing deviations from these guidelines must provide actuarial justification to the LIRC.

5. The LIRC also adopted guidelines for workers' compensation small deductible programs. The LIRC expressed concern that companies were asking for significant premium credits for relatively small deductibles. Companies have generally been unable to provide actuarial support for the premium credits requested. The LIRC will consider approval of small deductible programs; however, actuarial justification must be provided for the premium reductions. Capitol City Insurance Company was cited as an example of rather modest premium credits with reasonable actuarial

justifications which may be used as a relative benchmark until further actuarial data has been developed.

6. In other action, the LIRC took the following action on rate filings:

Company/Rate or Rule	Outcome
Louisiana Medical Mutual Insurance Company (Medical Malpractice) Indemnity Only $10,000 deductible from 7.9% to 4.8% $25,000 deductible from 18.9% to 12% $50,000 deductible from 33% to 23% Indemnity & Expense $10,000 deductible from 19.4% to 24% $25,000 deductible from 35% to 42% $50,000 deductible from 52% to 59%	Approved
Louisiana Retailers Mutual Insurance Company (Workers' Compensation) Use of LA Retailers Association Self-Insurers Fund rates, initial filing for scheduled rating plan, initial filing for retrospective rating plan	Approved
Louisiana Automobile Insurance Plan (Commercial Automobile) New ISO commercial automobile coverage forms and endorsements	Approved
Allstate Insurance Company (Automobile) 3% discount daytime running lights 10% discount for Allstate employees	Approved
Patterson Insurance Company (Homeowners) Initial homeowners program using base rates of United Agents preferred program	Approved

NECESSARY ACTION: Advise appropriate agency staff of changes in rate filings approved by LIRC.