



Frank H. Murkowski, Governor

**Department of Community
and Economic Development**

Division of Insurance

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ORDER NUMBER R 03-08

September 23, 2003

**ORDER ON HEARING REGARDING ALLSTATE INSURANCE GROUP
EARTHQUAKE RATES
RATE FILING ADOI #49968**

Background

On August 11, 2003, a hearing was held on whether the division should disapprove Allstate Insurance Group's (Allstate) rate filing #49968, which included changes to earthquake rates, because Allstate did not have adequate information about the earthquake model, as required by AS 21.39.040 to support its initial filing of revised earthquake rates in May 2002. The hearing was noticed on July 29, 2003. Allstate was represented at the hearing by its local counsel, Mark E. Wilkerson, and Allstate staff Dave Schwartz, Elizabeth Mocer, John Brady, Sara Drexler, and John R. Mathews. The division staff was represented by Sarah McNair-Grove, the division's Property/Casualty Actuarial and Filings Section Supervisor and Nick Atwood, Assistant Attorney General. Assistant Attorney General Signe Andersen was present to advise the director. Allstate offered two exhibits at hearing: Exhibit 1 was Actuarial Standard of Practice No. 38, Using Models Outside the Actuary's Area of Expertise (Property and Casualty) and Exhibit 2 was Allstate's Rate Filing #49968. The division offered no exhibits.

The subject rate filing was originally filed May 6, 2002. As stated in Allstate's rate filing cover letter, this filing proposed a 6.2 percent rate increase, revised rates for earthquake coverage and, modified Claim Rating Factors. The filing included the following six attachments:

- Attachment I – Summary of Actuarial Indication and Selected Changes
- Attachment II – Development of Indicated Change in Loss and Loss Expense Provision
- Attachment III – Expense and Investment Income
- Attachment IV – Earthquake Coverage Rate Change
- Attachment V – Claim Rating
- Attachment VI – Summary of Manual Changes

The filing also included a checking list and manual pages affected by the filing. With respect to earthquake rate changes, Attachment IV included an explanatory memorandum and determinations of rate level changes for owners and renters policies. The new earthquake rates were based on the Risk Management Solutions, Inc. (RMS) 1998 Earthquake Model.

Based on AS 21.39.040, the Allstate filing was subject to a 15-day waiting period before it became effective, which could be extended by the division. The division extended the waiting period until June 5, 2002. Because the division did not disapprove the filing before expiration of the waiting period, the filing was treated as “deemed approved” by operation of AS 21.39.040(d). This statute provides that a filing shall be considered to meet the requirements of AS 21.39 unless disapproved by the director within the waiting period.

Subsequently, the division received consumer inquiries regarding the Allstate rate increase, which prompted review of the Allstate filing after it was “deemed approved.” After review of the filing, the division advised Allstate that the 2002 rate filing did not have sufficient information to support the earthquake rate increase and requested additional information from Allstate. Based on further review of the filing and information subsequently received from Allstate, the division decided that the RMS 1998 model used by Allstate to develop its earthquake rates was not an adequate model to support the rates. In particular, the model did not have Alaska specific soil data and there was more current source information available at the time Allstate filed its rates in 2002. The division requested that Allstate withdraw the 2002 filing; Allstate declined to do so. The division initiated this proceeding to disapprove the earthquake rates in filing #49968 because Allstate did not have adequate information about the earthquake model as required by AS 21.39.040 to support its initial filing of revised earthquake rates in May 2002.

Discussion

Under AS 21.39.030, rates may not be excessive, inadequate, or unfairly discriminatory. In making rates, an insurer, among other things, must give consideration to past and prospective loss experience inside and outside this state, to past and prospective expenses both countrywide and those specially applicable to this state; and to all other relevant factors inside and outside this state. AS 21.39.030(a)(2).

An insurer must file with the division any proposed change in their manuals, minimum, class rate, rating schedule, or rating plan and every other rating rule before it becomes effective for use in this state. AS 21.39.040(a). Each filing is on file for a waiting period of 15 days before it becomes effective. AS 21.39.040(d). This waiting period may be extended an additional 15 days upon written notice of the director. Once the waiting period begins to run, the rate filing will be considered to have met the requirements of AS 21.39 unless the director disapproves the filing within the waiting period. The division is charged with reviewing the filings to determine whether it meets the requirements of AS 21.39. AS 21.39.040(c). If the division is unable to review a filing within the waiting periods triggered under the statute, the filing becomes effective and is deemed approved.

However, the statutes also provide that the waiting period does not begin to run if a filing is not accompanied by information upon which the insurer supports the filing, and the director does not have sufficient information to determine whether the filing meets the requirements of this chapter. AS 21.39.040(a). The insurer is then required to furnish the information upon which it supports the filing. AS 21.39.040(a). The waiting period does not begin to run until the required information is furnished to the division.

In the present proceeding, I find that Allstate’s rate filing #49968 at the time it was filed did not have sufficient information to determine whether the increase in earthquake rates met the requirements of AS 21.39. Indeed, the only items submitted with the rate filing to support the earthquake rates were a short explanatory memorandum and two brief charts depicting the change in rates for owners and renters/condo policies. While the explanatory memorandum identified that the new rates were based on the RMS 1998 earthquake model, no reasonable attempt was made to demonstrate or explain how the rates met the requirements of

AS 21.39.030. Given the substantial proposed increase in earthquake rates, a 100 percent increase for owners policies and a 200 percent increase for renters/condo policies, it was incumbent upon Allstate to provide sufficient information with the filing at the time it was made to support such large rate increases, certainly more than summary statements. I also believe it was incumbent upon Allstate under AS 21.39.040 to alert the division to the significant nature of the change in earthquake rates. I find it troubling that in Allstate's cover letter accompanying the rate filing there is no mention of the extent of the earthquake rate increase. Identifying in the cover letter the full extent of the proposed rate increase would have allowed the division to prioritize the filing for purposes of review and allowed time to disapprove the rate filing, if warranted, before expiration of any applicable waiting period. Under these facts, the division might reasonably assert that the filing did not deem because the waiting period for purposes of disapproval was not triggered.

Although I find that the rate filing was not supported by sufficient information at the time it was filed, I nonetheless conclude that the filing should not be disapproved on that basis. Based on the information and testimony presented at hearing, I am persuaded that there is now sufficient support for the filing at least for the timeframe for which it has been effective. I also find that the two concerns raised by the division regarding use of the model – no Alaska specific soils data and old data sources – were adequately addressed by Allstate at hearing and do not warrant disapproval of the rate filing at this time. My decision is in part based on the fact that Allstate has submitted a new rate filing based on an updated earthquake model, which utilizes digitized data that was not available at the time the RMS model was developed, but which will result in lower earthquake rates.

Allstate's testimony at hearing fairly established that the RMS earthquake model was analyzed, tested, and otherwise validated by an Allstate casualty modeling team and an actuarial peer review team to help ensure its reliability in building earthquake rates for Alaska. Allstate also established that there was a significant amount of Alaska specific seismic data in the RMS model. While the model may not have used actual Alaska specific soil data, Allstate established that reasonable assumptions were made in the model about Alaska soils based on averages in the Northwest. Those assumptions may have been more favorable to insureds than actual data had it been available at the time the model was developed.

With respect to the data sources relied on by the modelers, I am unable to find on the record before me that the use of older data sources – specifically, dated U.S. Geological Survey (USGS) seismic maps – under the facts did not comply with the ratemaking standards in AS 21.39.030. While it may be true that at the time Allstate made its filing there was more current USGS information than what had been used in the RMS model, I cannot determine what effect the older data had on the legitimacy of the model or on the rates built from the model. The division staff testified that the USGS had newer seismic information and that a more updated model was possible at the time Allstate made its filing. This testimony was based on communications with Rod Combellick, Chief and Acting Director of the Engineering Geology Section of the Division of Geological and Geophysical Surveys in Alaska's Department of Natural Resources. Mr. Combellick, however, did not testify at the hearing and there were no documents presented at hearing regarding his communications with the division or his review of the information used in the RMS model. Allstate acknowledges that USGS information has been updated since the development of the RMS model, but asserts that the RMS model was the best available at the time. Allstate testified also that it reweighed the RMS model with June 30, 2001 exposure data before it made the 2002 filing. In absence of documents or testimony demonstrating how use of older data in the RMS model affected the earthquake rates, I cannot make a finding or conclusion regarding this point.

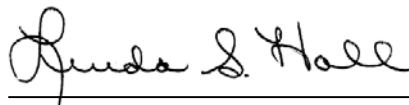
The division's concern regarding the model and its data sources is mitigated by the fact that Allstate engaged in a meaningful review process to test the validity of the model and, in any event, only implemented about half of the rate increase indicated by the model. According to Allstate's testimony, it has used the same earthquake rate of \$1.50 per thousand from 1994 until its filing in 2002. The RMS model indicated a rate of \$4.50 per thousand. Allstate requested a rate of \$3.00 per thousand.

Accordingly, I cannot conclude that Allstate's filing fails to meet the requirements of AS 21.39 as required by AS 21.39.050(c).

THEREFORE, IT IS HEREBY ORDERED:

Allstate rate filing #49968 remains approved.

This order is effective September 23, 2003.

A handwritten signature in cursive script that reads "Linda S. Hall". The signature is written in black ink and is positioned above a horizontal line.

Linda S. Hall
Director