

About the Author



Shawna S. Ackerman
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Shawna Ackerman is a principal and consultant in Pinnacle's San Francisco office. She is a Fellow of the Casualty Actuarial Society (CAS) and a member of the American Academy of Actuaries (AAA). She has served the CAS as a member of the Ratemaking Committee and is currently a member of the AAA Committee on Financial Soundness and Risk Management and the Extreme Events Committee.

Prior to entering consulting in 1998, Ms. Ackerman was a Senior Casualty Actuary with the California Department of Insurance.

In the area of auto insurance, Ms. Ackerman has been involved in:

- Rate and class plan filings for numerous insurers in California
- Legislative costing studies for Low Cost Auto
- Predictive modeling studies in support of introducing new rating variables and refining auto classification plans
- Clustering applications to refine territory rating structures
- Expert witness work in support of insurer rate filings
- California Department of Insurance workshops on Prior Approval Regulations and the Auto Rating Factor Regulations



Pinnacle News Flash

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California Commissioner Proposes Changes to Automobile Rating Factor Regulations

Regulations currently under review by California's Office of Administrative Law (OAL) will require all California private passenger auto insurers to file new rate and class plans within 30 days of the effective date.

The proposed regulations, which significantly change the manner in which auto rates can be set in California, could take effect as soon as mid-July. Filed by California Insurance Commissioner John Garamendi on June 5, OAL has 30 days to review the changes.

California auto classification plans are subject to two principal criteria unique to the state. First, auto rating factors must be established by sequential analysis. Second, the resulting factors must comply with a weighting scheme whereby the driving safety record has the greatest weight, followed by annual mileage and years licensed (mandatory factors). Finally, the optional factors must have less weight than the years licensed factor.

Current regulations, in effect since 1997, defined the weight of the optional factors as a single weight representing the average weight of all individual optional factors. The proposed regulations change the manner in which the optional factor weight is calculated, requiring each individual optional factor to have a weight less than the years licensed factor.

At the heart of the change is the commissioner's desire to make sure that rates are based primarily on how people drive rather than where they live. Traditionally, a territory (called frequency and severity bands in California) has a high weight when measured as an individual factor. Under the proposed regulations, individual optional factor weights will have to be compressed (tempered), or mandatory factors will have to be increased (pumped), or some combination of the two.

The key to successful implementation of the proposed regulations will be to find the combination of pumping and tempering that minimizes the difference from unconstrained price structures. The California Department of Insurance (CDI) has provided some allowances that will help mitigate dislocation including a transition phase over two years. Additionally, specific coverages could be combined in the weight calculation that may help with compliance. Lastly, the maximum allowable number of frequency and severity bands would be increased from the current ten to twenty. This change would allow for as many as 400 territorial combinations for rating. Increasing territory refinement may provide insurers an opportunity to more appropriately match rate to risk, to the extent that the weighting criteria can still be met.

For more information or to get assistance with upcoming changes in California's regulations, please contact Shawna Ackerman at shawnaa@pinnacleactuarial.com or (415) 439-5226 or visit us at www.pinnacleactuarial.com.

California Auto Rating Factor Regulations Highlights

- Filings may be required as early as August 18th - 30 days after amendments are filed with the Secretary of State.
- An accompanying rate filing is required .
- No individual optional factor can have a weight greater than the years licensed .
- A transition plan is allowed, the first class plan must correct at least 15% of the weight either through pumping or tempering .
- The maximum number of frequency and severity bands has been increased from ten to twenty.