

DEPARTMENT OF INSURANCE

Legal Division, Rate Enforcement Bureau
45 Fremont Street
21st Floor
San Francisco, CA 94105



**NOTICE OF INFORMAL WORKSHOP
REGARDING POTENTIAL CHANGES TO PRIOR APPROVAL
REGULATIONS SET FORTH IN
TITLE 10, CALIFORNIA CODE OF REGULATIONS,
SUBCHAPTER 4.8 SECTIONS 2642.6 – 2644.27**

REG-2007-00046

March 19, 2008

The California Department of Insurance ("Department") invites all interested persons to attend an informal workshop to discuss the variances contained in the prior approval regulations set forth in Title 10, California Code of Regulations, Section 2644.27, filed with the Secretary of State on 1-3-2007, and operative on 4-3-2007 as well as other changes to Title 10, Subchapter 4.8 sections 2642.6 through 2644.27. The Department is considering the following amendments to the regulations:

- For section 2642.6: reducing the maximum recorded period to six years.
- For section 2642.7: adding surety to the lines of insurance and adding surety, credit and aviation as specialty lines.
- For section 2644.2: changing the maximum permitted earned premium and fixed investment income to factors and using a slightly different formula for credibility adjustment when reinsurance is allowed.
- For section 2644.3: changing the minimum permitted earned premium and fixed investment income to factors and using a slightly different formula for credibility adjustment when reinsurance is allowed.
- For section 2644.6: adding language to clarify the section.
- For section 2644.7: adding the requirement that insurers file using 12, 24 and 40 quarters of rolling calendar year data and identifying that the premium and loss trend factors will be developed using 12 quarters unless 24 or 40 quarters will provide a more actuarially sound result as selected by the Commissioner; clarifying that the "actuarially most sound" standard for credibility applies to lines other than homeowners and private passenger auto and allowing for use of at least 24 quarters if that produces the actuarially most sound result as decided by the Commissioner.
- For section 2644.8: changing reference to specialty lines to allow professional liability insurers to use their own actuarial judgment on trend, CAT factors and loss development and to allow specialty lines to use their own actuarial judgment on the entire ratemaking formula.
- For section 2644.12: making the standard for farmowners the average for all distribution systems combined, for earthquake defining the standard as excluding adjusting and other expenses and for burglary and theft allowing all distribution systems to be combined and a five year average to be used.
- For section 2644.17: allocating surplus on the sum of reserve plus premium.

- For section 2644.19: changing Fixed Investment Income to a factor.
- For section 2644.20: specifying which Mergent number to use for preferred stock yield.
- For section 2644.21: making the loss reserve ratio for burglary and theft the dollar-weighted average of the loss reserve ratios for fire, allied lines and inland marine.
- For section 2644.23: changing “+fixed invest inc” to “/(1-fixed invest inc factor)” and provide a slightly different formula for complementary losses when reinsurance is allowed.
- For section 2644.25: clarify that the term “reasonable” in subsections (i) and (j) has the same meaning as the term in subsection (d).
- For section 2646.4: allow for updates when interest rates (affecting rate of return and yield) change significantly.

For section 2644.27 the Department is considering the following changes:

- Deleting the variance for altering mix of business.
- Modifying the variance for loss prevention and loss reduction by specifically identifying that relief will be granted from the efficiency standard for additional expenses for loss prevention and loss reduction.
- Creating specific standards that must be met in order to obtain a variance based on loss prevention and loss reduction.
- Deleting the requirement that an insurer demonstrate savings commensurate with loss reductions.
- Adding objective criteria for what loss prevention expenses are recoverable.
- Deleting the variance for lower quality of service and inferior service to underserved communities and provide an objective definition for superior quality of service.
- Deleting the COIN variance (higher or lower financial investment in underserved communities.)
- Changing the variance based on 90% of business in one line or in California to apply to the leverage factor rather than rate of return and specifically identifying the adjustment to be .85 and limit the adjustment to either 90% of business in California or 90% premium in one line.
- Modifying the reasons why the loss trend may not produce an actuarially sound result to include not enough years of data and changing the 10 year period to at least 24 quarters.
- Providing that if there is more than one actuarial analysis of a variance, then the one that creates the most actuarially sound result must be used.
- Limiting the overall effect of combined variances to not exceed the efficiency standard.

A copy of the changes to be considered is attached.

The informal workshop will be held as follows:

Monday April 7, 2008 – 10:00 a.m.
California Department of Insurance
Hearing Room

45 Fremont Street, 22nd Floor
San Francisco, California 94105

The purpose of the workshop is to gather information with respect to the amending the regulations as described above. Therefore, the Department invites all interested parties to present oral or written comments pertaining to the amendments under consideration at the workshop. Participants should be prepared to present specific comments on, and/or alternate regulation language for, the regulations. Please be advised that participation in the workshop will be in addition to, and not in substitution for, any participation in a formal rulemaking process. This invitation does not constitute a Notice of Proposed Action under the Administrative Procedures Act.

If you are unable to attend the workshop, comments will be accepted until 5:00 p.m. on April 7, 2008. Please address all comments to the contact person below.

The facilities to be used for the public hearing are accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the contact person for this workshop in order to make special arrangements, if necessary. In addition, any questions regarding this Notice should be directed to the contact person for this informal workshop:

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