



April 15, 2016

Administrative Letter 2016-03

To: All Insurers and Rate Service Organizations Licensed to Write Property and Casualty Insurance in Virginia

Re: Compliance with Statutory Rate Standards in File-and-Use Lines of Insurance

The purpose of this Administrative Letter is to remind insurers to review the rate standards outlined in Virginia Code § 38.2-1904 for filings subject to the provisions of Chapter 19 of Title 38.2 of the Code of Virginia.

In recent years, Virginia has received rates and supplementary rating information in filings that utilize increasingly complex pricing mechanisms, such as predictive models. Some filings have included pricing mechanisms that are inconsistent with the rate standards outlined in § 38.2-1904, particularly subsection A 3. In order to comply with the rate standards, any rate differentials for the same coverage must be based on differences between expected losses and/or expenses. Examples of practices that have been determined to be inconsistent with the provisions of § 38.2-1904 A 3 include, but are not limited to, the use of:

- Characteristics specific to a particular policyholder to predict and assign pricing components unrelated to losses or expenses *incurred during the policy period*.
- Pricing components related to an insured's *predicted* long-term profitability over time, based on an insured's likelihood to renew.
- Price optimization techniques intended to maximize overall retention, profitability, written premium or market share based on how much of a premium increase *an individual policyholder is likely to tolerate* before seeking coverage with other carriers.

Questions pertaining to Administrative Letter 2016-03 can be directed to the Property and Casualty Division, Rates and Forms Sections at 804 371 9965 or BOIRRF@scc.virginia.gov.

Sincerely,

A handwritten signature in cursive script, reading "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

JKC/m