REPORT OF THE SUBCOMMITTEE TO STUDY
THE LAWS REGULATING ANTITRUST ACTIVITIES
OF THE INSURANCE INDUSTRY

DECEMBER, 1988

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TABLE OF CONTENTS

APPENDICES

SUMMARY OF RECOMMENDATIONS

1. That legislation be enacted to require the Superintendent of Insurance to report annually to the Joint Standing Committee on Banking and Insurance on insurers doing business in Maine. The report or reports shall indicate the level of competition among insurers in Maine and the availability of insurance in Maine.

2. That the Bureau of Insurance develop and distribute information to consumers on various lines of insurance. This information should include, but not be limited to, the cost of insurance for various lines and should include the rate recommended by ISO for each particular line. The information should be presented in a format that is easily read and understood. The information should not only be mailed to consumers who request it, but copies should be placed in areas of public access, i.e. libraries.

3. That if the Bureau of Insurance, as part of its mandated review of rating organizations in Maine, reviews and analyzes reports conducted by other states concerning those states' reviews of rating organizations, then the Bureau should follow up on any deficiencies cited in other states' reports on rating organizations, and provide comments to the Joint Standing Committee on Banking and Insurance.

4. That the Bureau of Insurance continue to make premium comparison data available to consumers for homeowners and automobile insurance and that the data include comparisons based on standardized coverage limits. This data should be made available to consumers in easily understood pamphlets and distributed to areas of public access and to the joint standing committee having jurisdiction over insurance. It should be publicized with public service announcements. The pamphlet should be updated every 6 months and should state that the premiums may have changed since this document was published and that more recent data is available from the Bureau of Insurance.

5. That the Bureau of Insurance help clarify what tie-in sales are acceptable and unacceptable and distribute this clarification to insurance companies, insurance agents, and consumers (via distribution in places of public access, public service announcements and inclusion in a consumer booklet).

PART ONE - INTRODUCTION

LD 2411, "AN ACT to Clarify the Laws Regulating the Insurance Industry to Ensure its Regulation by State Antitrust Laws," was introduced during the Second Regular Session of the 113th Legislature by Sponsor Senator Theriault and co-sponsors Representative Rydell, Representative Allen, and Speaker Martin. The bill proposed to amend the laws regulating the insurance industry to make it clear that State antitrust laws apply to the insurance industry and to prohibit the use of rating organizations in rate making.

After review of this bill, members of the Banking and Insurance Committee felt there was insufficient time during the session to completely study the issues surrounding antitrust laws and joint rate making. Therefore, LD 2411 was amended to provide for a Subcommittee of the Joint Standing Committee on Banking and Insurance to study the issues regarding antitrust laws and the insurance industry and enacted as P&S 1987 c. 122. (See Appendix A)

The study focused on two main objectives:

1. To study the feasibility and necessity of amending state antitrust laws as they relate to the insurance industry, and

2. To study the role of rating, advisory, and trade organizations in the rate-making process in relation to antitrust laws.

The Subcommittee to Study the Laws Regulating Antitrust Activities of the Insurance Industry of the Banking and Insurance Committee of the 113th Legislature conducted this study from May to December of 1988.

PART TWO - ANTITRUST LAW

A. GENERAL ANTITRUST LAW

The objective of antitrust law is to assure a competitive economy based upon the belief that through competition producers will strive to satisfy consumer wants at the lowest price with the sacrifice of the fewest resources.[1] Competition among producers allows consumers to bid for goods and services. In theory, this results in the best quality goods and services at the least possible cost.

The fundamental federal antitrust law is the Sherman Antitrust Act (15 U.S.C.A. §§1-7). Its two main provisions are:

> §1: Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal ...

> §2: Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a felony ...

State antitrust statutes often parallel the federal acts and rely on their interpretation. Maine law sets out similar provisions specific to the State in Title 10 §1101 and §1102. Like the Sherman Act, the first provision prohibits any price fixing agreement between two or more businesses. 10 MRSA §1101 provides:

> "Every contract, combination in the form of trusts or otherwise, or conspiracy, in restraint of trade or commerce in this State is declared to be illegal; provided that no association or corporation organized for the sole purpose of marketing, producing or trucking pulpwood or saw logs, the members of or stockholders in which are actually engaged in the production of such products or selling, cutting or trucking the same shall be deemed to be a conspiracy or a combination or in restraint of trade or an attempt to lessen competition or to fix prices arbitrarily; nor shall the marketing contracts and agreements between such association or corporation and its members or stockholders be considered illegal as such or in unlawful restraint of trade or as part of a conspiracy or combination to accomplish an improper or illegal purpose. Whoever shall make any such contract or engage in any such combination or conspiracy shall be guilty of a Class C crime."

The second provision prohibits monopolization (which prohibits any one company from becoming too large). 10 MRSA §1102 provides:

> "Whoever shall monopolize or attempt to monopolize or combine or conspire with any other person or persons to monopolize any part of the trade or commerce of this State shall be guilty of a Class C crime."

The most common violations of antitrust law are:

1. Price fixing. Price fixing results from an agreement between competitors with the purpose and effect of limiting competition.

2. Group boycott. A group boycott occurs when two or more businesses join forces to keep another business out of the market.

3. Tying violations. A tying arrangement exists whenever a seller stipulates that he will sell a product or service - the tying product - only if the consumer agrees to purchase another product or service - the tied product.

Immunity from the antitrust laws has been granted to several special markets and activities, such as agricultural and fishery marketing associations and export trade associations.[2] Included in these exemptions is the insurance industry.

B. ANTITRUST LAW AND THE INSURANCE INDUSTRY

In 1945, Congress enacted the McCarran-Ferguson Act* (15 U.S.C. §§1011-1015) which, in part, exempts the insurance industry from the federal antitrust laws if the state regulates the industry[3]. The relevant parts of the Act provide:

> §1: Congress hereby declares that the continued regulation and taxation by the several states of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several states.
>
> §2(a): The business of insurance, and every person engaged therein, shall be subject to the laws of the several states which relate to the regulation or taxation of such business ..."

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*Currently, the McCarran-Ferguson Act is the focus of a bill in Congress (HR 2727) which seeks to repeal the Act. As of the publication date of this report, the bill is in the Monopolies Subcommittee of the House.

In addition to the general antitrust provisions in Maine law (which parallel the Federal statute), Maine has enacted specific antitrust legislation regulating trade practices in the business of insurance in response to the McCarran-Ferguson provisions indicating that state antitrust regulation regarding the business of insurance will supercede federal regulation.

Title 24-A, Chapter 23 of the Maine Revised Statutes defines or provides for the determination of all such practices which constitute unfair methods of competition or unfair or deceptive acts or practices. Included in the unfair practices are:

1. "...any trade practice which is defined in this chapter, as, or determined pursuant to this chapter, to be an unfair method of competition..." (section 2152);

2. "...any agreement to commit, or by any concerted action commit, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance." (section 2158, sub-section 1);

3. "...any agreement to commit any act of boycott, coercion or intimidation, or in pursuance thereof monopolize or attempt to monopolize any part of the business of insurance." (section 2158, sub-section 2);

4. "...any method of competition or ... any act or practice not defined in this chapter ... which is unfair or deceptive..." (section 2166, sub-section 10).

Testimony before this study subcommittee by the Attorney General's Office and by representatives of the Insurance Industry speaking on behalf of and with the authorization of the insurers they represent has indicated that the provisions of Maine law concerning general antitrust activity and the provisions of law specifically addressing the antitrust activities of the insurance industry clearly apply to the business of insurance and those engaging in that business.

After reviewing the appropriate laws and the relevant testimony, this subcommittee finds that the general antitrust laws (5 MRSA §§206-214 and 10 MRSA §§1101-1108) and the specific antitrust laws concerning the business of insurance (24-A MRSA ch. 23) do apply to the insurance industry and the business of insurance in Maine.

Whether those laws are adequate to protect the consumer is a separate question which is addressed by this study in two aspects: tying violations and rating organizations. Rating organizations are discussed in PART THREE of this report. Tying violations are discussed in the following section.

C. TYING VIOLATIONS

A tying arrangement in the context of insurance sales would occur when an agent and/or an insurer required an applicant for one type of insurance to obtain a second type of insurance from the same insurer as a condition for issuance of the first type of coverage. The question arose before the commission when it was alleged that one insurer was requiring a current customer who carried homeowners insurance with that insurer to also switch the automobile insurance to the same carrier or be denied a renewal of the homeowners coverage.

According to the Attorney General's Office, "There is no express prohibition of this conduct in the Insurance Code."[4] However, the Superintendent of Insurance in 24-A MRSA §2166, sub-§10, is authorized to prohibit undefined practices if they are unfair or deceptive. Conduct constituting tie-in sales might be found to be a violation of this general authority. As has been pointed out by the Attorney General's Office, tying arrangements are not prohibited if the consumer is not unreasonably restricted in his or her ability to purchase the desired coverage elsewhere. The result is that tie-in sales are not prohibited per se; but "may" be found to be a violation of a general prohibition section if the attendant circumstances prove an actual restraint on trade or competition exists. The Bureau of Insurance is currently preparing a bulletin to help clarify acceptable and unacceptable tie-in sales. (See proposed bulletin in Appendix B).

PART THREE - RATE MAKING IN MAINE

A. A REVIEW OF THE FILING PROCESS

1. General Lines of Insurance

Maine law allows an insurer or a licensed rating organization (when the insurer has authorized the superintendent to accept filings from the organization on its behalf) to file rate changes. The ratings must be filed at least 30 days in advance of the effective date, although this provision may be waived.

The type of rate making system in Maine (except for Workers' Compensation Insurance) has been described as a "file and use" system. Insurers (or rating organizations) file a rate change and, if no action is taken by the Bureau of Insurance, those rates become effective after a 30 day waiting period (or longer if so requested.) The Bureau will acknowledge rates which it does not disapprove. Maine law gives the Bureau the authority to review the proposed rates against statutory criteria and disapprove those rates if they fail to meet the statutory criteria. The burden of proof lies with the Bureau of Insurance to prove that the proposed rates do not comply with the statutory criteria. In actual practice, formal hearings that result in disapproval of a rate are rare.

However, many filings are either disapproved and the filer does not elect to request a hearing, or the filing is amended by the company and the original filing is not approved. Because insurers want to avoid the time and expense of a hearing, they are usually willing to revise a filing or choose not to contest a disapproval.

The rate filing must state the effective date, the character and extent of coverage contemplated, and any supporting data. The supporting data may be based on the experience or, if no experience is available, the judgment of any combination of the following: (1) the insurer or rating organization making the filing, (2) any other insurer or rating organization, or (3) any other factors deemed relevant by the insurer or rating organization.

Once the Bureau receives the filing, it is assigned to an actuary or rate analyst for an initial review for completeness and compliance with the law. The Property and Casualty Division and the Actuarial Division within the Bureau work together on rate filings.

The Bureau of Insurance looks at the following factors in examining a rate filing:

1. timeliness of data;
2. Maine vs. countrywide data;
3. premiums adjusted for prior rate changes;

4. adjustments to losses;
   a. loss development factors
   b. trend factors
5. recent law changes, regulations;
6. expense load, overhead;
7. profit factor, consideration of investment income;
8. classification relativities;
9. territorial relativities;
10. rating rules;
11. credibility of data;
   a. volume of business
   b. comparisons with other sources of data (financial reports, other insurers, non insurance data)
12. non recurring factors;
13. availability, competition;
14. impact on insureds.

Throughout the review process, the Bureau and the filing agent (insurer or rating organization) will maintain a continuing dialogue as necessary to ensure that the Bureau has sufficient information to complete its analysis. After all the information has been received and reviewed, the Bureau will acknowledge the filing, disapprove the filing, or suggest that an amendment to the filing be submitted. Given their limited resources, the Bureau traditionally devotes more energy to reviewing upward deviations from rating organization's standard rates than downward deviations. The insurer or rating organization may request a hearing if the Bureau and the filing agent cannot resolve any remaining issues. A final administrative decision by the Superintendent may be appealed to the courts.

If an insurer or rating organization would like to begin using the rates before the filing process can be completed, it may request a suspension or modification of the filing requirements.

2. Workers' Compensation Insurance

Rate making for workers' compensation insurance requires prior approval of the Bureau of Insurance.[5] The law permits both rating bureau and independent company filings, but in practice all companies licensed to write workers compensation insurance are members or subscribers to the National Council on Compensation Insurance (NCCI), and rely on NCCI to file rates on their behalf. The law authorizes the Superintendent of Insurance to establish rates, he or she is not limited to approving or disapproving the filed rates. The rates established by the Superintendent are maximum rates, an insurer may use rates less than those approved if filed within five (5) days after use.

Maine law requires that all companies writing workers' compensation insurance in Maine participate in a residual market mechanism. Title 24-A MRSA §2366 provides: "All insurers authorized to write workers' compensation and employers' liability insurance in this State shall participate in the workers' compensation insurance residual market mechanism, which is composed of an Accident Prevention Account and a Safety Pool." Any employer unable to obtain coverage in the voluntary market is guaranteed coverage through this residual market mechanism.

Unlike the rating law applicable to other lines of property and casualty insurance, the Workers' Compensation Rating Act contains the specific content of filing requirements. Rating bureaus must file for each of the three (3) preceding calendar years premium, loss, expense and investment income allocable to risks in this state. Data is required in aggregate, by company, and for loss information by classification. Additional information is required on reserves, company management and loss control and safety engineering efforts and expenses. If, after an initial review for completeness and an opportunity for the filer to submit additional material, the filing is found by the Superintendent to be incomplete it must be dismissed.

If the filing is found to be complete, a public hearing must be held. The Public Advocate is a participant in the hearing, and other entities, such as employers and employee representatives, may participate.

The factors listed previously under general lines of insurance would be examined during the workers' compensation rate hearing. In recent years particular attention has been focused on reserving, loss development, investment income, a fair profit factor, and evaluation of the effects of recent law changes. Because workers' compensation claims may extend for many years, the estimation of the impact of each of these factors is critical in establishing just and fair rates.

After completion of the hearing and review of the testimony the Superintendent issues a decision establishing the rates. The decision may be appealed by a party or affected person to Superior Court.

B. RATE MAKING ORGANIZATIONS

The property and casualty rating chapter of the Maine Insurance Code (Chapter 25 of Title 24-A) provides for the licensing of rating organizations and permits an insurer to satisfy its obligation to file rates by becoming a member or subscriber of a licensed rating organization and authorizing the Superintendent to accept filings from the rating bureau (from the Bureau of Insurance's report to the Subcommittee, undated). There are ten licensed rating bureaus in the State of Maine which provide services for a broad range of coverage. (See Appendix C)

Maine law permits companies to use rating organization rates, rules, and forms rather than requiring the companies to file their own rating manuals and forms. Insurers may also deviate from filings made on their behalf by a rating organization.

The two rating bureaus of particular interest to the Subcommittee are ISO (Insurance Services Office) and NCCI (National Council on Compensation Insurance). These two rating organizations are responsible for rate filing services for the majority of lines of insurance. Other rating bureaus are more specialized. Both ISO and NCCI are statistical agents and are designated by the Superintendent to collect, compile, and distribute historical premium and claim experience to the Superintendent and to insurers.

In general, the functions performed by rating organizations in general can be summarized as follows:

1. Collect and analyze statistical data.
2. Develop and file rates.
3. Develop and file ratings, rules and plans.
4. Develop and file policy forms and endorsements.
5. Act as filing agents as requested by a member or a subscriber company.
6. Conduct research and seminars.

1. ISO

ISO is a national, not-for-profit corporation which is licensed as a rating or advisory organization and designated as a statistical agent in all 50 states, the District of Columbia and Puerto Rico.

Specifically, the primary mission of Insurance Services Office, Inc., is to serve the insurance companies that choose to participate by developing and assisting in the implementation of policy forms and related programs by making available advisory rates, and by gathering, compiling and disseminating statistical and other property-casualty insurance information.

ISO calculates advisory rates based on a broad aggregate data base of loss experience and statistical estimates of expected future costs based on that past loss experience. Calculations employ standard actuarial techniques to adjust "old" data to expected future conditions. The data base has national and regional components. Testimony from ISO (Carole Banfield) stresses that calculations do not attempt to recoup past losses; they are intended only to cover future losses and expenses. (See Appendix D for a more detailed discussion of "How ISO Determines Advisory Rates.")

ISO also acts as a filing agent for those insurance companies that grant filing authorization. When approved by regulators, companies can then adopt rate, rule and form revisions filed on their behalf of ISO. Companies are free to deviate from the filings if they so choose. Reasons for companies to deviate from ISO advisory rates may vary, but generally include different loss experience; different expense experience, different profit needs; different conclusions about future conditions; production goals for the particular insurance company; or competition among companies. In 1987, ISO made approximately 36 filings in Maine (22 rates; 14 other than rates), and 1,900 (over 1,000 rates) countrywide.

ISO services 16 lines or product areas of property/casualty insurance. ISO does not handle workers' compensation (See NCCI), accident and health, life, fidelity and surety, or ocean marine.

2. NCCI

The National Council on Compensation Insurance (NCCI) serves as the primary workers' compensation pricing organization in most states and provides administrative support to independent pricing organizations in a number of other states.[6]

Price levels are calculated from data which is submitted by insurers under formal programs established by NCCI, on the kinds and numbers of accidents which have occurred to workers in each state and the cost of getting injured workers back on the job.

In addition to studying the risks associated with a particular job in a particular industry, NCCI takes into consideration legislated benefit changes, the cost of safety engineering, administrative costs, claim adjustment expenses, taxes, license charges, and miscellaneous costs.

Regulation of prices, rules and classifications for workers' compensation insurance rests with statutory officials in each state. NCCI serves as a coordinating organization between insurers and regulatory authorities.

Because NCCI performs different functions in different states, its relationship with regulators varies by jurisdiction. In some states, NCCI files manuals of classifications, rules, prices, policy forms, and other information with regulators on behalf of its members and subscribers.

In other jurisdictions, NCCI is the legally designated statistical agent for workers' compensation insurance, responsible for the collection, tabulation and analysis of all workers' compensation data. This information is supplied to the regulatory, administrative and legislative entities in the state charged with reviewing rates, benefits, and delivery systems for workers' compensation.

C. COMMENTARY ON RATING ORGANIZATIONS' FUNCTION IN MAINE[7]

1. Bureau of Insurance

a. Functions Performed by Rating Organizations and Statistical Agents

Rating organizations perform a number of functions for their members and subscribers. These can generally be summarized as follows:

(1) Develop and file rates.

(2) Develop and file rating rules and plans.

(3) Develop and file policy forms and endorsements.

(4) Act as a filing agent as requested by member or subscriber companies.

(5) Conduct research or training sessions in conjunction with rate and form functions.

In addition, NCCI performs additional functions unique to workers' compensation insurance. NCCI calculates and distributes the experience rating modification factors for the uniform experience rating plan, and is the plan administrator for the residual market pool.

Both ISO and NCCI are statistical agents and are designated by the Superintendent to collect, compile, and distribute historical premium and claim experience to the Superintendent and to insurers.

ISO is a licensed rating organization and statistical agent for a broad range of property and casualty coverages in this state. The covered personal lines are private passenger auto, dwelling fire, homeowners, inland marine, and personal liability coverage. The commercial lines are commercial automobile, boiler and machinery, crime, farm, general liability, commercial multiple peril, and nuclear energy liability insurance.

NCCI is a limited function rating bureau and statistical agent. Its activity is restricted to workers' compensation and employers' liability insurance.

b. Impact of Rating Organization Rates

Maine law permits companies to use rating organization rates, rules and forms rather than filing their own rating manuals and forms. The code also permits insurers to deviate from filings made on their behalf (section 2317 for property casualty, 2362 for workers' compensation). The Bureau estimates that nearly 90% of all deviations from ISO rates are downward deviations.

For workers' compensation, the approved rates are maximum rates; no upward deviations are permitted.

There are approximately 380 companies currently licensed to write property casualty insurance in this state. Approximately 300 of those companies have given ISO some type of filing authority for at least one of the 18 lines for which ISO files rates, rules, and forms. There are seven different authorization possibilities which members or subscribers can give to ISO (rates; rules; forms; rates and rules; rates and forms; rules and forms; and, rates, rules, and forms). Filing authority does vary by line of insurance. For example, a number of insurers use ISO forms for the major personal lines (auto, homeowners) but authorize ISO to file rates, rules, and forms for the commercial lines.

Although ISO rates and rules may appear to be the benchmark for most insurers, there are considerable variations in rates and rating rules among the companies. In 1987, the Bureau of Insurance received 1,896 filings that were deviations from rating bureau rates and rules out of a total of almost 3,000 filings in 1987. Most of these were deviations from ISO rates and rules. The majority of the ISO deviations dealt with rule deviations. In the commercial lines, there are approved rating plans, such as schedule rating, which permit adjustments to premiums to reflect the risk characteristics of a particular insured but often are used as competitive devices.

The Bureau of Insurance develops comparison charts which show the different rates charged by individual insurance companies in various lines (see Appendix E). For purposes of comparison by the Subcommittee, the Bureau added the benchmark rate developed by ISO to the charts. Normally the ISO benchmark rate is not shown on the charts.

For workers' compensation insurance, the current situation is much simpler -- there are no insurers deviating from the maximum rates established by the Superintendent. This reflects the historical controversy over the adequacy of rates in this state and the reluctance of insurers to write voluntary business. In other states where rates are closer to or at the NCCI filed rate level, downward deviations are common.

c. Advantages of Rating Organizations

(1) Economies of Scale. There are efficiencies in having one entity performing statistical, rating, actuarial, and policy form and manual development, rather than requiring each insurer to provide these services.

(2) Credibility of Data. Data or information for each individual insurer is less credible (statistically reliable) than data or information accumulated from a large number of insurers.

(3) Encourages Entry. The availability of rates, rules, forms, and loss cost data from a rating organization encourages entry into the lines of insurance for which the rating bureau provides services. This is especially important in a small state, such as Maine, that insurers may otherwise pass over.

(4) Aids Domestic Companies. Because of their limited resources, most domestic companies, companies which have their home office in Maine, rely on services provided by rating organizations, but deviate in areas where they perceive competitive advantages.

(5) Standardized Forms. Standardized forms assist insureds by permitting consumers to compare premiums without major concerns about coverage differences. It also assists insurers in pricing their product.

(6) Encourages Competition. Because insurers benefit from the services provided by rating organizations, but are not required to adhere to bureau filed rates, rating organizations encourage competition.

d. Disadvantages of Rating Organizations

(1) Average Rates. Rating organizations develop rates based on experience from a broad range of insurers and thereby produce rates that reflect various levels of underwriting, efficiency, expense levels, marketing methods, etc. Rates produced are likely to be too high for some, too low for others.

(2) Rating Procedures. A rating organization develops rates based on a procedure selected by its management and pricing personnel. Other pricing techniques might produce different results.

(3) Responsiveness. Because a rating organization operates in a number of states, there may be delays in adjusting rates in a particular state to reflect changes in the law of that particular state.

(4) Standard Rates. Because approved rating organizations' rates are legally usable by all members or subscribers, there must be elements of a competitive market to encourage companies to adjust the bureau rates to reflect their own rate level needs. (It is important that elements of a competitive market be present to keep the rates at reasonable levels and prevent rates from clustering around the standard rates provided by rating organizations.)

2. Consumer Organizations[8]

Jay Angoff, counsel for the National Insurance Consumer Organization in Washington, D.C. made a presentation to the subcommittee concerning the insurance industry, antitrust matters and ISO. His comments are summarized below.

(a) RATE-MAKING COMMENTS: Mr. Angoff identified the following elements used to develop ISO rates:

(1) experience data

(2) loss development (estimate of current year rate if future claims are paid at same rate as in the past).

(3) trending (predicts what will happen in future, e.g., inflation, size of jury verdicts, etc.) [Mr. Angoff says individual companies should calculate this for themselves. ISO typically makes higher predictions-high enough for the least efficient carrier to earn a profit.]

(4) Add expense and loss items. [Mr. Angoff says most companies do not spend as much as ISO estimates; ISO figures are "excessive"; 5% for underwriting profit and contingencies is, in his words, "outrageous"; and, of the 54% estimated for expected loss and loss adjustment ratio, only 14% goes to attorneys while 40% goes to pay claims.]

Of these items, items 1-3 are used to develop "premium" rates and item 4 is added for the "final" rate.

Mr. Angoff also indicated that premium comparison sheets published by ISO and circulated to ISO members are not available to the public. Competitors know what other companies charge but consumers do not. This is an anticompetitive practice.

Mr. Angoff noted that NCCI requires, in its constitution, that its members adhere to its rates. However, the subcommittee noted that the NCCI constitution requires each member to adhere to all NCCI filings except if allowed to deviate by state law or if state law prohibits agreements to adhere to the filings.

Mr. Angoff further asserted that insurers clustered around the ISO rate thus exhibiting characteristics of an uncompetitive market.

(b) REPEAL OF USE OF RATING ORGANIZATIONS' RATES WILL DECREASE INSURANCE RATES: Mr. Angoff noted that repealing the antitrust exemption for Workers' Compensation Insurance in Michigan caused rates to fall by 30.6%. Michigan workers' compensation insurers must calculate their own trending, their own expenses, and their own profit factors. Limiting the antitrust exemption for workers' compensation insurance in Illinois, Minnesota and

Oregon also caused rates to fall significantly (although not by as much as complete repeal caused rates to fall in Michigan).*

Mr. Angoff further testified that insurance rates in Maine are, in his judgment, much higher than is justified by Maine's loss experience, resulting in Maine insurers earning supra-competitive profits. He felt that prohibiting the use of ISO rates should cause rates to fall toward competitive levels. (This would require Maine insurers to calculate their own expense and profit factors.)

Mr. Angoff noted that during the 12-year period 1975-86, Maine general liability insurers paid out $.30 in claims for each dollar they took in in premiums, making them the 8th most profitable general liability insurers in the nation (out of 51 jurisdictions). In 1986, the most recent year for which figures are available, Maine general liability insurers were the 10th most profitable general liability insurers in the nation, according to the industry's own "incurred loss" analysis.

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* Louisiana has prohibited rating organizations from filing rates for insurers but still allows use-rating organization data by insurers. This action is too recent to have been evaluated.

(c) ISO RATE MAKING AND CYCLICAL NATURE OF PREMIUM FLUCTUATIONS: Mr. Angoff testified that allowing use of ISO filed rates is responsible for the cyclical nature of the insurance industry [premiums]. Fluctuations in interest rates, stock prices, and exchange rates and in elasticity of demand for insurance contribute to the cycle; but the protected ISO rate is responsible for extremes of peaks and valleys. He feels that the ISO rating leads companies to monitor their own costs inadequately. Mistakes in ISO judgment affect the whole industry since they all rely on ISO judgments for their rates.

(d) ELIMINATION OF ISO RATE FILING WILL NOT BE DETRIMENTAL TO SMALL COMPANIES: Mr. Angoff indicated that small companies will not be hurt by elimination of ISO rate-filing because they would still have access to the data base (pooling of historical loss data). Small companies could hire some actuarial time or computer software to complete the rate determining factors specific to their company.

(e) PROPERTY/CASUALTY INDUSTRY INHERENTLY NOT COMPETITIVE: Mr. Angoff testified that the property/casualty industry is not competitive by its very structure. Although there are many companies, a handful dominate the market in any one line. For example, 2% of property/casualty insurers write 80% of industry premiums.

Arn Pearson, a representative of the Maine People's Alliance, presented the committee with a list of organizations supporting antitrust regulation of the insurance industry. That list is included as Appendix F.

3. Insurance companies operating in Maine

The Maine Association of Insurance Companies is a non-profit association made up of five domestic mutual insurance carriers of property and casualty insurance. Members of this Association were invited to address the Subcommittee concerning individual domestic insurance companies' use of services provided by rating organizations. Specifically, representatives were encouraged to discuss the extent to which insurance companies rely on rating organizations to determine rates; the incidence with which insurance companies deviate from rates set by rating organizations; and the effect on insurance companies if rate making organizations were not allowed to file rates with the Bureau of Insurance on behalf of insurance companies.

Representatives from several insurance companies were present to discuss these aspects with the Subcommittee.

These representatives indicated that it was "vital to the success of their industry and the protection of their policy holders that the rating organizations be allowed to continue to provide data and statistical reporting, standardized rules, rates and forms, act as filing agencies for the insurance companies and provide statistics and trends to all segments of the industry."[9] In addition to recommending rates, rating organizations also provide additional services to insurance companies. For instance, rating companies may provide standardized forms. Testimony received from representatives of the Maine Association of Insurance Companies indicated that access to standardized forms minimizes the expense of form development and analysis. Standardized forms make it easier for the consumer to understand and compare policies among companies. Rating organizations may also provide standardized manuals. The representatives maintained that these standardized manuals benefited the individual companies by minimizing the expense of manual development.

Industry testimony also indicated that statistical reporting to the Bureau of Insurance as a basis for deviation filing and rate analysis by domestic insurers is more accurate and more cost-effective than if the Bureau had to collect the data or if each domestic insurer had to develop its own database. Nationwide data, not available from domestic insurers experience, provides more accurate information as to the present status of risks and the development of trending information. This gives small insurance companies necessary risk information to decide on timely entry or withdrawal from particular lines of insurance.

Representatives of MAOIC indicated that they examine each rate filed on their behalf by the rating organizations and make an independent determination as to whether or not they wish to accept the rate (in which case they need not take any action), file for a delay in the effective date, reject the rate filing, or file a deviation from the rate filing. That decision is based on their company's experience and their own evaluation of their potential to produce a profit at a lesser rate.

These companies indicated that they were extremely price conscious because if they have the "highest rates on the street" the better risks will purchase insurance from their competitors and they will be left with the poorer risks. Their chances of making a profit are greater the more people they insure who are considered good risks, not poor risks.

They also indicated that it was less expensive for them to have rating organizations file rates on their behalf instead of developing the rates themselves. If rating organizations were not permitted to file rates on their behalf, they would have to increase their utilization of professional actuarial staff.

In addition, they indicated that it is less expensive for the Bureau, and consequently the Maine taxpayer, to address one filing instead of the over 300 filings which would be required if each insurer filed separately.

The subcommittee noted that on the one hand the use of one filing by a rating organization in the place of multiple filings by individual insurers is deemed beneficial in terms of saving insurers and taxpayers time and money. On the other hand, it has been implied that many deviations are sought from the "benchmark" rates filed by the rating organization. This action is deemed to be an indication of adequate competition in the marketplace by insurers. These two forces seem to create a tension between cost efficiency and fostering competition. This tension seems to be characteristic of antitrust matters.

D. SURVEY OF MAINE INSURERS

At the Subcommittee's request, the Bureau of Insurance provided information on the top ten insurers in selected product lines in Maine and their method of determining rates (rating organization filing authority vs. independent rates). This information is summarized in Table 1.

Eleven insurance companies who file independent rates were surveyed as to the method by which they determine rates; the source of data and size of pool from which the data is collected; the reason for filing independent rates, and the method of filing with the Bureau of Insurance. The companies surveyed included:

Allstate Insurance Company
State Farm
Commercial Union
Employers Fire
Canal Insurance
Maine Bonding and Casualty
Peerless
Aetna C & S
Massachusetts Bay
New Hampshire
Dairyland

Out of 11 companies surveyed, 7 responded. Those responses are summarized below.

TABLE 1

TOP TEN INSURERS BY SELECTED PRODUCT LINE
METHOD OF DETERMINING RATES

Line of Coverage	Independent Rates	ISO Filing* Authority
General Liability	None	National Union Fire USF&G Commercial Union Aetna C&S New Hampshire Ins. Home Insurance INA International Ins. American Home Hartford A&I
Homeowners	Allstate State Farm Commercial Union Employers Fire	Maine Bonding & Casualty York Mutual Maine Mutual Middlesex Mutual Vermont Mutual Massachusetts Bay
Commercial Multi-Peril	None	Commercial Union Massachusetts Bay American Fidelity Continental Ins. American Employer's New Hampshire Ins. Middlesex Mutual Peerless Aetna C&S Hanover

*Insurers may deviate from or have exceptions to the ISO rates.

Commercial Auto (Physical damage)	Canal Insurance	Commercial Union New Hampshire USF&G Travelers Indemnity Hanover Maine Bonding Hartford A&I Peerless
Commercial Auto (Liability)	Canal Insurance	Commercial Union New Hampshire Travelers Indemnity USF&G Liberty Mutual Hanover Insurance Hartford A&I National Union Fire Maine Bonding
Private Passenger (Physical damage)	Maine Bonding and Casualty Allstate State Farm Commercial Union Employer's Fire Peerless Aetna C&S Massachusetts Bay New Hampshire	Concord General
Private Passenger Auto (Liability)	Allstate Maine Bonding and Casualty State Farm Commercial Union Employer's Fire Peerless Aetna C&S Dairyland Massachusetts	Concord General

<u>Allstate</u> - (Files independent rates in lines of homeowners', private passenger physical damage and private passenger auto liability)

Allstate retrieves data from company records on past policy holders. When an Allstate program is first implemented, they use countrywide data. They then build a data base on Maine exposures. Eventually, Allstate is able to use primarily Maine exposures as the pool of data. Allstate has an internal filing division which files their rates, rules, and forms.

Canal Insurance Company - (Files independent rates in lines of commercial auto, liability and physical damage)

Canal Insurance performs its own statistical, rating, actuarial and policy form development. Data is collected using only Canal's own experience. Canal says that ISO rates do not fit the type of risks they write. Canal does file its statistical experience with ISO.

Dairyland - (Files independent rates in the area of private passenger auto-liability)

Rate-making methodology is based on actuarial sound principles using in-house pricing staff to complete reviews. Dairyland's own accident year loss data is used. Loss development factors are calculated based on Dairyland's historical case incurred loss development patterns and loss adjustment expenses are loaded into rate calculations. Trend factors utilize both Dairyland's country-wide experience and ISO fast track data. For those areas unique to a state, such as class and territory relativities, state data is adjusted for credibility.

Dairyland develops and uses its own policy forms, endorsements and rate manuals. Rate and form filings are developed by staff and filed following state guidelines. When approved, filed changes are implemented.

ISO rate level is not appropriate because Dairyland Insurance Company is a non-standard automobile insurer with a book of business that is dissimilar from the standard industry.

Maine Bonding and Casualty - (Files independent rates in the lines of private passenger auto-physical damage and private passenger auto-liability)

Maine Bonding and Casualty Company uses the rates, rules and forms filed in its behalf by ISO in Maine with the exception of private passenger auto and homeowners. For these lines, Maine Bonding uses ISO forms, but independently reviews overall rate levels and files accordingly.

Data is collected using a combination of ISO data and that of Maine Bonding (compiled in-house). Maine Bonding feels that personal lines rate levels require a lower volume of premium than commercial in order to set rate levels effectively. It also feels that the competitiveness of personal lines business forces companies to keep rates below the ISO rate level. Most personal lines are independent of ISO as to rate level. Maine Bonding still relies on ISO for various relativities between risk clarifications and other miscellaneous rates. The major reason for making independent filings is to relate rate levels to insureds which can only be done with credible data. Another reason is to become more competitive in targeted areas.

Massachusetts Bay Insurance Company (Hanover) - (Files independently in lines of private passenger-physical and private passenger-liability)

Massachusetts Bay develops its own actuarial support for rate filings based on its own experience, supplemented with knowledge of rates charged by competitors and, to a lesser extent, advisory rate information developed by ISO.

ISO does serve as the statistical agent. While Massachusetts Bay makes its own rate decisions, the ISO benchmark does serve a role in the process.

Peerless Insurance Company - (Nationale-Nederlauden) - (Files independent rates in lines of private passenger auto-physical damage and liability)

While technically identified as being independent, absolutely depend on existence of ISO suggested rate, rule and form programs.

While Peerless does own analysis on internal company data, it relies on ISO information to supplement where data is "thin". Utilize the statistical files created for bureau reporting which also contain information on independent portion of the programs.

Peerless chooses not to use ISO rates, rules and forms because it feels experience is statistically different from industry average and desires to increase marketing advantage by developing independent additions to standard program. ISO develops rates/rules/forms, via a committee structure and Peerless feels the ability to innovate adds value to the product line.

State Farm Fire and Casualty Company - (Files independent rates in lines of homeowners', private passenger physical damage and private passenger auto liability)

State Farm Mutual Company uses its own statistics, files independent rates, does its own actuarial analysis, files independent policy forms and prepares its own rate manuals. State Farm compiles its own data based on the experience of Maine State Farm policyholders.

State Farm Fire and Casualty also uses its own statistics, files independent rates, does its own actuarial analysis, files independent policy forms, and prepares its own rate manuals. The Fire and Casualty company is a subscriber to ISO, and does have access to some of the information, but State Farm still sets rates based on their own company experience.

F. RECOMMENDATIONS*

Recommendation #1

That legislation be enacted to require the Superintendent of Insurance to report annually to the Joint Standing Committee on Banking and Insurance on insurers doing business in Maine. The report or reports shall indicate:

1) the level of competition among insurers in Maine, and
2) the availability of insurance in Maine.

For the purpose of determining the level of competition among insurers in Maine and the availability of insurance in Maine, the Superintendent shall examine annually each insurer doing business in Maine and offering the specific line or lines of insurance being reviewed during that year. The specific line or lines of insurance being reviewed shall be limited to those lines of insurance for which rates are filed by a rating organization. The Bureau shall submit an annual report to the Joint Standing Committee on Banking and Insurance detailing the level of competition and availability of insurance in Maine. The report shall include, but shall not be limited to, specific lines of insurance where the Superintendent has reasonable cause to believe that the existing level of competition may not be an effective regulator of rates.

Background

Currently, Title 24-A MRSA §221 (see Appendix G) requires the Superintendent of Insurance to examine individual insurers for the purpose of determining their financial condition, their fulfillment of contractual obligations, and their compliance with the law.

In his assessment of the financial condition of each insurer, the Superintendent examines the affairs, transactions, accounts, records and assets of each authorized insurer.

Although the Superintendent is authorized to conduct examinations as often as he deems advisable, he is required to examine insurers only every five years.

Annual financial review of insurers doing business in this State is mandated by 24-A MRSA §221-A (see Appendix H). This section provides the Superintendent with a means of improved financial monitoring of insurers requiring all insurers to file an audited financial report annually with the Superintendent.

* Proposed legislation implementing these recommendations is contained in Appendix L

Concerns

The Subcommittee, while recognizing the annual review process conducted by the Bureau, felt that the annual review process should contain more than financial information. The Subcommittee was specifically interested in information that would show:

The level of competition among insurers in Maine and the availability of insurance in Maine.

* In his determination of specific lines of insurance to be reviewed, the Superintendent should at a minimum consider the following factors:

1. The number of insurers actually writing insurance within the line.

2. The extent and nature of rate differentials among insurers within the line.

3. The respective market share of insurers actually writing insurance within the line and changes in market share compared with previous years.

4. The ease of entry into the line by insurers not currently writing such line.

5. The degree to which rates within the line are established by rating service organizations.

6. The extent to which insurers licensed to write the line have sought to write or obtain new business within the line within the past year.

7. Whether a pattern of excessive rates exists within the line in relation to losses, expenses and investment income.

8. Such other factors as the Bureau of Insurance deems relevant to the determination of whether the existing level of competition is an effective regulator of rates within the line.

If, as a result of this review, it is determined that the level of competition is inadequate in a specific line or lines of insurance and that it may be related to the practice of rating filing by a rating organization, the committee having jurisdiction over banking and insurance may find it useful to establish a limited-time demonstration project in one of the lines of insurance identified in the report as potentially inadequately competitive to determine if the requirement of more detailed information from individual insurers justifying their rates would reduce rates for the consumer while continuing to ensure the economic health and viability of the insurer. Individual insurers could be required to provide their own supporting material to justify their rates in that line of insurance even when those rates concurred with the rates recommended by a rating organization. That information could include each insurer's own actuarial analysis and its own loss data, including the following factors:

1. loss development,
2. trending
3. expense; and
4. profit.

Recommendation #2

That the Bureau of Insurance develop and distribute information to consumers on various lines of insurance. This information should include, but not be limited to, the cost of insurance for various lines and should include the rate recommended by ISO for each particular line.

The information should be presented in a format that is easily read and understood. The information should not only be mailed to consumers who request it, but copies should be placed in areas of public access, i.e. libraries.

Background

Currently, consumers may request from the Bureau of Insurance rate comparisons for automobile and homeowners insurance to aid them in purchasing insurance. This comparison chart is similar to the one in Appendix I. The Subcommittee felt that consumers needed the information in a more readily accessible format, and that more detailed information should be included. Consumer information should be generally available in public buildings and the public should be aware of its availability.

As part of a reorganization plan currently in place at the Bureau of Insurance, several new procedures and new consumer services have been implemented or are presently in the process of implementation. Information provided by the Bureau (please see Appendix J) details plans for further development in consumer activities.

Recommendation #3

That if the Bureau of Insurance, as part of its mandated review of rating organizations in Maine, reviews and analyzes reports conducted by other states concerning those states' reviews of rating organizations, then the Bureau should follow up on any deficiencies cited in other states' reports on rating organizations, and provide comments to the Joint Standing Committee on Banking and Insurance.

Background

Title 24-A §2328 (see Appendix K) requires the Bureau of Insurance to review rating organizations. The Bureau currently reviews the reports conducted by other states on the rating organizations. The Bureau does not, however, follow up on any deficiencies cited in the reports.

Concerns

The Subcommittee believes that reviewing another state's analysis is a time and money-saving way to begin this state's review. A complete review, however, requires the independent judgments of the Maine Bureau of Insurance as to the adequacy of the other state's review and 1) a follow-up of the other state's pursuit of any deficiencies that they find, and 2) independent review of additional deficiencies the Maine Bureau of Insurance identifies, if any, that were not identified in the other state's report.

Recommendation #4

That the Bureau of Insurance continue to make premium comparison data available to consumers for homeowners and automobile insurance and that the data include comparisons based on standardized coverage limits. This data should be made available to consumers in easily understood pamphlets and distributed to areas of public access and to the joint standing committee having jurisdiction over insurance. It should be publicized with public service announcements. The pamphlet should be updated every 6 months and should state that the premiums may have changed since this document was published and that more recent data is available from the Bureau of Insurance.

Background

Currently, consumers may request from the Bureau of Insurance rate comparisons for homeowners and auto insurance to aid them in purchasing insurance. However, as presently compiled, the policies used as examples do not offer price comparisons for the exact same policy or coverage limits between different companies. The subcommittee felt that consumers needed comparisons in a more readily understood format. Accordingly, the comparisons should include comparisons to several standardized coverage limits. Consumer information should be generally available in public buildings and the public should be aware of its availability.

As part of a reorganization plan currently in place at the Bureau of Insurance, several new procedures and new consumer services have been implemented or are presently in the process of implementation. Information provided by the Bureau (please see Appendix J) details plans for further development in consumer activities.

Recommendation #5

That the Bureau of Insurance help clarify what tie-in sales are acceptable and unacceptable and distribute this clarification to insurance companies, insurance agents and consumers (via distribution in places of public access, public service announcements and inclusion in a consumer booklet).

Background

Because of their exemption from anti-trust statutes, insurers are allowed to tie the provision of one type of insurance (i.e. auto) to the provision of another type (i.e. homeowners). In other words, the insurer can tell the consumer that if they wish to purchase one type of insurance, they must also purchase another.

Currently, consumers and insurers are not aware of what constitutes an appropriate or unappropriate tie-in sale.

REFERENCES

1. Ernest Gellhorn, Antitrust Law and Economics: In a Nutshell, 3rd ed., West Publishing Co., St. Paul, 1986, p.45.

2. Ibid, p.35.

3. "Insurance and Antitrust Law: The McCarran-Ferguson Act and Beyond," by Alan Anderson in William and Mary Law Review, Vol. 25:81, 1983.

4. Letter from Linda M. Pistner, Assistant Attorney General, to Joseph A. Edwards, Superintendent, Bureau of Insurance, dated August 17, 1988.

5. Information provided by Bureau of Insurance in memorandum, dated October 31, 1988 to the Subcommittee to Study the Laws Regulating Antitrust Activities of the Insurance Industry.

6. NCCI Today, National Council on Compensation Insurance, 1985, p.6.

7. Report on Rating Organizations by the Bureau of Insurance for the Subcommittee to Study Antitrust Laws, undtd.

8. Presentation by Jay Angoff, Counsel, National Insurance Consumer Organization to the Subcommittee to Study Antitrust Laws, September 1, 1988.

9. Maine Association of Insurance Companies' report to the Subcommittee to Study Antitrust Laws, July 27, 1988.

APPENDIX A

APPROVED

APR 27 '88

BY GOVERNOR

CHAPTER

122

P & S LAW

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY-EIGHT

S.P. 920 - L.D. 2411

AN ACT to Require the Study of the Laws Regulating Antitrust Activities of the Insurance Industry.

Emergency preamble. Whereas, Acts of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, there is confusion as to whether state antitrust laws apply to the insurance industry; and

Whereas, this study needs to begin in May in order to be completed by December 15, 1988; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Be it enacted by the People of the State of Maine as follows:

Sec. 1. Study. The Joint Standing Committee on Banking and Insurance shall study the feasibility and necessity of amending state antitrust laws as they relate to the insurance industry. In addition, the committee shall study the role of rating, advisory, and trade organizations in the rate-making process and in relation to antitrust laws.

Sec. 2. Findings. The committee shall report its findings and any recommended legislation to the 113th Legislature by December 1, 1988.

Sec. 3. Meetings. The committee chairmen shall appoint a subcommittee of 7 committee members to study these issues. The Senate chairman and House chairman shall serve as cochairmen of the subcommittee. This subcommittee may meet up to 5 times to conduct public hearings or to study information related to these issues. In addition, the subcommittee shall meet one time with the full committee to report its findings.

Sec. 4. Compensation. Committee members shall receive legislative per diem and expenses, as defined in the Maine Revised Statutes, Title 3, section 2, for days of attendance at committee meetings.

Sec. 5. Staff; assistance. The Legislative Council shall provide staff to the committee. The Bureau of Insurance and the Department of the Attorney General shall provide other information and assistance as needed to the committee.

Sec. 6. Travel; experts; consultants; assessment. The committee may travel to review a rating or advisory organization, hire consultants or seek expert advice. The Superintendent of Insurance shall assess insurers up to $20,000 in the same manner of assessment as defined in Title 24-A, section 237, for these expenses. The superintendent shall deposit all payments made pursuant to this section with the Treasurer of the State. The money shall be used for the sole purpose of paying the expenses authorized in this section.

Sec. 7. Appropriation. The following funds are appropriated from the General Fund to carry out the purposes of this Act.

	1987-88	1988-89
LEGISLATURE		
Study Commissions - Funding		

Personal Services	$ 770	$1,870
All Other	700	3,800
Total	$1,470	$5,670

Provides for the per diem, travel and related expenses of a 7-member subcommittee of the Joint Standing Committee on Banking and Insurance for subcommittee meetings.

Sec. 8. Allocation. The following funds are allocated from Other Special Revenue to carry out the purposes of this Act.

	1987-88
PROFESSIONAL AND FINANCIAL REGULATION, DEPARTMENT OF	
Bureau of Insurance	
All Other	$ 20,000

Emergency clause. In view of the emergency cited in the preamble, this Act shall take effect when approved.

APPENDIX B

Proposed Bulletin
Bureau of Insurance
12/02/88

TIE-IN SALES

Although tie-in sales in some instances are acceptable, the practice of tying the sales of one product to another may be an unfair trade practice in certain situations. These situations occur when:

1. The consumer is required to place additional coverage with an insurer not of the consumer's choice in order to obtain a desired coverage, <u>and</u>

2. The consumer's alternative opportunities to purchase the desired coverage are severely limited or non-existent (for example, where the insurer holds all or a substantial portion of the market share of the desired coverage).

Generally, tie-in sales are permitted where the consumer is free to reject the offer of tied coverages because alternate sources of the desired coverage are freely available. Some tie-in sales may even be beneficial and desired by the consumer because of convenience, better price, or avoidance of gaps in coverage. For example, insureds may benefit by placing coverage with one company because disputes between carriers over applicable coverage can be avoided. The consumer also may want coverage from only one company to avoid confusion when a claim must be made. The packaging of several products together may result in a lower total cost and more complete coverage for the insured.

Agents who wish to tie coverages should be cautious and should make sure that the consumer always has another choice available in the market. Without this choice the practice of tying coverages is coercive and may violate unfair trade practices laws.

NOTE: As written this bulletin does not address the requirement by some insurers that agents must maintain a certain balance of sales.

APPENDIX C

RATING ORGANIZATIONS

American Association of Insurance Services
1035 S. York Road
Bensenville, IL 60106

Automobile Insurance Plan Service Office
733 Third Avenue
New York, NY 10017

Crop-Hail Insurance Actuarial Association
209 West Jackson Boulevard
Chicago, IL 60606

Factory Mutual Service Bureau
1151 Boston Providence Turnpike
P.O. Box 688
Norwood, MA 02062

Insurance Services Office, Inc.
160 Water Street
New York, NY 10038
NE OFFICE: 100 Newport Avenue, C.S. 1800
Quincy, MA 02269

ISO Commercial Risk Services, Inc.
100 Newport Avenue, C.S. 1700
Quincy, MA 02269

Mill and Elevator Rating Bureau
2 North Riverside Plaza
Chicago, IL 60606

National Council on Compensation Insurance
One Penn Plaza
New York, NY 10001
NE: Northeastern Council on Compensation Insurance
21 Wintonbury Mall, P.O. Box 60
Bloomfield, CT 06002

Nuclear Insurance Rating Bureau
160 Water Street
New York, NY 10038

The Surety Association of America
100 Wood Avenue South
Iselin, NJ 08830

APPENDIX D

INSURANCE SERVICES OFFICE, INC.

HOW ISO DETERMINES ADVISORY RATES

Unlike other industries, property/casualty insurers do not know the ultimate cost of theproduc they sell - the insurance policy - at the time of sale. It may take months or possibly years after the policy expires before an insurer knows its costs because, at the time of sale, losses under the insurance company have not yet occurred.

Firms in most other industries are able to base their prices largely on known or controllable costs. They know at the time of sale how much they have spen on such items as lablor, raw materials, equipment, transportation and the other cots of their goods and services.

Insurers, on the other hand, can only know a minor portion of their costs at the time of sale and must therefore predict the major part of their costs - losses and related expenses paid pursuant to the policy's terms. This presents insurers with unique problems in pricing the products they sell and constitutes the essential difference between insurance and other industries.

ISO reviews past loss experience to assist in developing current advisory rates that must be sufficient to pay for future cots. These estimates of future costs are based in large part on historical data gathered from insurance policies written in the past and from the claims paid or incurred on those policies.

Central to this process of insurance ratemaking is the availability of a reliable data base which provides information about losses paid or incurred on similar types of insurance coverages. In order to develop stable rates, ISO aggregates the loss experience from hundreds of affiliated insurers. The resulting loss data base is an average of large, medium and small insurers; agency and direct writers; individual risks having no losses and risks having losses capped at the policy limit. As with all forms of statistical analysis, the larger and more consistent the statistical sample, the greater the probability that the predictions based on it are accurate. This "law of large numbers" means that, with a broad aggregate data base ofloss experience, the analysis and prediction of expected losses should be - and usually are - more reliable.

Virtually no insurer has sufficient loss experience or a credible enough data base for all aspects of ratemaking in any line of insurance serviced by ISO. Each insurer can improve the statistical credibility of its own data base by combining or "pooling" its premium and loss experience with the premium and loss experience of other insurers who underwrite similar business. The more data collected and pooled to develop these average statistics, the more accurate the prediction by insurers of their future losses. This serves to reduce the size of the contingency margin needed in rates to account for a possible error in predicting future losses and other costs.

It is a common economic theorem that the greater the confidence a business has that its prediction of costs is accurate, the less of a "risk load" will be needed by that business to guard against the possibility that its prediction of costs might be inaccurate. The law of large numbers as applied to the business of insurance means that past loss experience of many insurers, rather than of only one or two, is a better base for actuarial projections of future losses. With a pooled data base, the confidence in the credibility of the forecasts increases, allowing the risk loads to decrease.

Exposure, premium and loss statistics from insurers are pooled and maintained by organizations like ISO that are licensed and scrutinized by state regulators. Insurers provide ISO with data abouat their own premium and loss experience, which is then combined with similar information of other companies reporting data to ISO. In turn, insurers and government are provided with aggregate information derived from the pooled loss data.

In summary, the unique nature of the insurance product requires the pooling of data. ISO maintains such a data base. The actuarial analysis of such a data base along with the development of standard coverage parts which allow the creation of that data base are critical elements in the development of ISO advisory rates.

Although larage quantities of data are a prerequisite to sound insurance pricing, data collection is only the first step that must be taken to obtain information about the future costs of providing insurance coverage. Historical data can provide a good picture of past costs but give little information about future costs without additional analysis, including the use of professional judgment. For example, the raw losses as reported by our affiliated insurers do not immediately reflect the totality of loss and loss related expenses which will ultimately be paid by these insurers. Many claims are filed years after the occurrence. Unallocated loss adjustment expenses are not reported with the detailed statistical records. Large losses or catastrophes can distort the loss experience.

For most insurers, raw data for most lines of business and most states isn't enough. If ISO advisory benchmark rates - reflecting both industry experience and the forecasting of that experience by ISO actuaries - were not available, the result would be less competition and higher prices in the marketplace. Many small and medium-sized insurers would ultimately be forced out of markets where they do not have a significant market share of the business. Even large well-established insurance companies would be inhibited from entry into new geographic areas or lines of insurance.

Property/casualty actuaries employed by ISO use past loss experience to assist in establishing rates that predict future costs. They use mathematical formulas, expert judgment and extensive research in developing pricing projections. In turn, actuaries employed by insurers rely heavily on data collected from their own company and on aggregate loss and expense projections from ISO's actuarial review of its pooled data sources.

In effect, actuarial analysis of a large volume of data must substitute for what in other industries is a more simple process of calculating the actual costs of products at the time they are sold.

ISO's actuarial services involve the preparation, review and analysis of statistical data for the purpose of developing reasonable projections of average rate level need by line of insurance, as well as for each class (a grouping of risks with similar loss characteristics) in each geographic territory. The results are benchmarked advisory rates. ISO may or may not file these with regulatory authorities in the different jurisdictions, depending upon the type of rating law or regulatory requirements. This information is also provided to participating insurers, each of whom may elect to use, modify or disregard that information depending upon their own needs or requirements.

Developing meaningful pricing information from an aggregate data base involves not only actuarial formulas, but also the research skills and expertise to apply proper judgment, as necessary. Data in the fine detail necessary for pricing a policy for a particular type of risk within a specific geographic territory can fluctuate greatly for even the largest insurer. Actuarial analysis - loss development, trending, etc. - of a pooled data base permits the estimation of underlying costs in spite of the random fluctuations that can appear in actual insurance losses. The more credible loss costs can then be projected into the future.

In the development of the ISO's advisory rates, the actuarial staff utilizes the historical state premium and losss data collected from the various participating insurers as the starting point for the projection of future insurance costs. Since the goal of the ratemaking process is not to recoup losses on past policies but to determine whether or not current advisory rates are adequate to cover the losses and expenses that are expected to be incurred on policies written now and in the future, the historical underwriting results, while of interest to company management and insurance regulators, are of little value to the ratemaking process until they are adjusted to reflect future conditions.

These adjustments must be made to both premiums and losses. The premiums first must be adjusted to reflect the current ISO advisory rates. This is necessary because it is the adequacy of the ISO advisory rates that is being tested. This adjustment to historical premium data is necessary for two reasons: (1) the historical data is several years old and would reflect the rates in effect at the time these policies were written and (2) the historical data reflects the rates charged by the various individual insurers which could be - and, in fact, in most instances are - different from the ISO advisory rates.

A second adjustment to premiums is necessary to reflect the fact that the premium base - called an exposure base - may have increase or decreased over time. This occurs in thos exposure bases such as sales or payroll which are subject to inflationary changes. Through the use of a trend factor the historical premium data is adjusted to reflect the effects on premiums of future sales or payroll levels.

On the loss side, the historical losses must be adjusted to reflect the ultimate expected future costs. The first adjustment is called loss development. This is important because for many lines of insurance it takes may years before the final ultimate losses are known. But the actuaries cannot wait until these final ultimate losses are known because the data would be so old (more than 10 years in some cases) that it would not be useful. For this reason the data for more recent, but "immature" years are utilized and adjusted to a final ultimate basis through loss development. These loss development factors are established based upon a review of historical development patterns within the various states as well as countrywide.

The second adjustment to the historical losses is to include loss adjustment expenses. In liability lines of insurance, the historical losses include allocated loss adjustment expenses - those expenses such as court costs and lawyers' fees which can be allocated to an individual claim - but not other loss adjustment expenses, such as claims department overhead, which are called unallocated loss adjustment expenses. For property lines of insurance the historical losses do not include any loss adjustment expenses. Each year ISO's actuaries review the latest available loss adjustment expense data to determine the necessary adjustments to historical losses to include the appropriate loss adjustment expenses in the historical losses.

The application to the historical losses of the two adjustments just discussed - loss development and loss adjustment expenses - provide the actuaries with ultimate historical losses including all loss adjustment expenses. The next adjustment, called trend, is necessary to adjust the historical losses to reflect the economic and social conditions that are anticipated to exist during the future period for which the advisory rates will be in effect. The appropriate trend in both the frequency (number) of claims and the severity (cost) of claims is determined by the actuaries after a review of the trends indicated by the historical insurance data, as well as indications of recent changes in the cost of goods and services that impact the size and number of insurance claims, such as hospital cots, legal costs, autor repair costs, building costs, number of miles being driven, speed limit changes and enforcement, etc.

Once the appropriate trend factors have been determined, they are applied to the developed ultimate historical losses including all loss adjustment expenses. This results in the projected future losses. These losses are then compared to the projected premiums to develop a loss ratio. Once the loss ratio has been calculated and expense loadings for commissions, premium taxes, overhead expenses (exclusive of claims department overhead) etc. have been established, the actuaries are able to determine whether or not the ISO advisory rates are adequate, or whether new advisory rates are necessary to provide coverage in the future.

APPENDIX E

COMPARISON CHARTS FOR DIFFERENT RATES CHARGED BY INDIVIDUAL INSURANCE COMPANIES IN VARIOUS LINES

GROUP AND/OR COMPANY OR PROGRAM	Split Limit	City of Portland (except Islands)		Cape Elizabeth, Falmouth So. Port. Westbrook		No. Aroostook Madawaska Ft. Kent etc.		Cumberland Gorham, Gray Long & Peaks Is. Standish So. Windham, Yarmouth		So. Aroos. Caribou, Presque Isle Houlton, Etc.		Bangor Brewer		Biddeford Saco, Old Orchard		Lewiston Auburn		Augusta Gardiner Hallowell Farmdle Randolph		Waterville Winslow Fairfield		Lebanon Sanford, Wells and points south		Remainder of State		Notes
		Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	Example: 1	2	
itna: Aetna Cas & Surety		518	1050	420	848	460	930	446	904	420	850	446	902	446	902	446	902	454	918	454	918	435	880	447	904	a
Aetna Ins. Co. of Htfd.		664	1350	548	1112	598	1214	584	1186	542	1098	600	1218	600	1218	600	1218	588	1194	590	1198	564	1144	592	1201	a
llstate Ins. Co.	X	332	812	302	748	286	698	312	780	284	700	320	806	322	812	342	866	312	788	312	788	300	746	299	737	a
mm. Union: Empl. Fire Ins. Co.	X	458	951	388	804	364	753	362	748	338	699	382	791	382	791	382	791	364	753	364	753	342	707	364	753	
Commercial Union	X	540	1123	450	934	426	884	422	876	392	813	448	930	448	930	448	930	424	880	424	880	398	825	430	893	
oncord Gr: Concord Gen. Mut.		557	1160	453	937	443	917	472	978	433	896	500	1039	500	1039	500	1039	474	984	474	984	431	892	469	972	
Green Mountain		690	1441	560	1167	550	1142	585	1218	537	1115	621	1291	621	1291	621	1291	587	1222	587	1222	533	1111	582	1211	
anover: Mass. Bay		491	1114	431	977	415	940	432	978	380	858	435	985	435	985	435	985	427	968	427	968	388	876	441	998	
Hanover		608	1383	533	1210	514	1166	534	1212	471	1068	538	1222	538	1222	538	1222	527	1197	527	1197	480	1089	549	1247	
artford Ins. Hfd. Cas. Ins. Co.	X	638	1169	524	955	517	940	544	993	504	915	574	1050	574	1050	574	1050	546	994	546	994	501	910	544	990	
Hfd. Acc. & Ind. Co.	X	738	1364	605	1112	596	1094	629	1156	581	1065	664	1223	664	1223	664	1223	630	1158	630	1158	579	1060	628	1154	
orace Mann	X	380	999	295	787	287	767	348	919	287	767	341	904	351	927	347	919	350	926	319	849	283	758	332	880	a
iberty Mutual Fire Ins. Co.	X	457	985	412	895	378	755	382	837	357	753	409	895	398	871	398	871	396	573	392	855	360	780	401	857	
aine Bond. & Cas: Automaster		526	1291	446	1091	454	1111	466	1141	390	951	444	1086	444	1086	438	1071	414	1011	460	1126	396	966	428	1046	
Standard		620	1526	536	1316	574	1411	538	1305	474	1161	556	1366	556	1366	544	1336	492	1206	544	1336	492	1206	526	1291	
aine Mutual Fire Ins. Co.		393	934	393	934	393	934	393	934	393	934	380	907	380	907	380	907	390	907	330	907	380	907	362	861	b
etropol. Prop. & Liab. Ins. Co.	X	498	1002	421	847	409	818	441	891	401	803	450	909	450	909	450	909	432	871	432	871	434	872	451	909	a, c
H Ins. Gr.: Granite St. Ins. Co.		540	1123	445	924	436	905	466	968	405	840	490	1018	490	1018	477	991	457	949	456	947	411	852	442	917	
NH Ins. Co.		718	1497	589	1226	576	1199	615	1280	534	1110	647	1448	649	1352	633	1318	607	1264	602	1253	542	1127	583	1213	
atrons-Oxford Mut: Preferred		482	997	408	842	380	785	412	850	380	785	443	917	443	917	443	917	422	873	422	873	384	793	420	869	
Standard		564	1171	477	988	445	922	482	999	445	922	519	1078	519	1078	519	1078	494	1024	494	1024	449	931	492	1021	
eerless: Preferred	X	538	1280	427	968	417	960	413	937	399	906	434	985	460	1045	460	1045	416	944	416	944	378	857	429	974	
Standard	X	615	1402	489	1111	475	1080	475	1080	458	1043	497	1130	526	1196	526	1196	475	1080	475	1080	433	982	491	1117	
rudential Prop. & Cas. Ins. Co.	X	506	929	466	854	384	702	434	796	413	757	432	792	432	792	432	792	440	808	440	808	428	784	NA	NA	
tate Farm Mut. Auto. Ins. Co.	X	338	933	310	856	279	770	309	854	279	770	317	874	331	915	317	874	303	837	303	837	279	770	284	782	
ravelers Ind. Co.: Preferred	X	446	1021	347	792	363	830	352	805	365	830	374	856	386	882	386	882	358	816	358	816	374	856	363	830	
Standard	X	558	1276	434	990	454	1038	440	1006	456	1038	468	1070	482	1102	482	1102	448	1020	448	1020	468	1070	454	1037	
SAA	X	460	965	378	787	372	774	393	818	364	755	415	867	415	867	415	867	394	821	394	821	361	749	392	817	a
SF&G: Fid. & Guar. Ins. Co.		464	963	373	773	378	781	366	757	347	717	415	861	415	861	415	867	372	770	372	770	347	717	392	812	
U.S. Fid. & Guar. Co.	X	551	1150	436	930	442	915	446	925	413	854	513	1067	502	1041	502	1041	460	954	460	952	411	850	472	978	
ork Mut. Prof. Auto Plan		478	1386	430	1246	411	1191	411	1191	411	1191	430	1246	430	1246	430	1246	430	1246	430	1246	411	1191	411	1191	
NON STANDARD INSURERS & ASSIGNED RISK PLAN (250 Deductible on Collision.)																										
airyland Ins. Co.	X	912	2460	768	2112	780	1524	744	2040	780	2076	828	2268	828	2268	828	2268	744	2052	744	2052	708	1944	768	2064	
aine Auto Ins. Plan	X	832	1387	714	1194	683	1141	721	1211	683	1141	772	1289	772	1289	772	1289	740	1230	740	1230	673	1131	746	1260	
rogressive Cas. Ins. Co.	X	714	2068	656	1864	650	1824	650	1824	650	1824	748	2148	748	2148	748	2148	656	1864	656	1864	650	1864	650	1864	
I.S.O.		714	1588									646	1201	646	1201	646	1201	614	1138					606	1123	

ootnotes:
*Ineligible
a. Medical payment limit is $1000 or higher
b. $250 deductible collision
c. Towing included

GROUP AND/OR COMPANY OR PROGRAM: (as listed by market share)			Amount of Dwelling Coverage.....$60,000 — Town Classification: A, B & C within 1000'	A, B & C within 5 miles	D within 1000'	D within 5 miles	E within 5 miles	F over 5 miles	Amount of Dwelling Coverage.....$120,000 — Town Classification: A, B & C within 1000'	A, B & C within 5 miles	D within 1000'	D within 5 miles	E within 5 miles	F or over 5 miles	Additional Conditions, Credits and Coverages (See Footnotes)
Maine Bonding and Cas. Co.	Homemaster		174	174	174	174	183	292	395	395	395	395	418	643	b.
	Maine Bonding		227	227	227	227	240	382	518	518	518	518	544	841	
Commercial Union	Northern Assurance		178	178	178	178	185	281	399	399	399	399	420	639	1.4.b.
	Commercial Union		263	263	289	289	329	420	598	598	658	658	744	957	
York Mutual	HO-80		205	205	205	205	205	327	466	466	466	466	466	744	*b.c.
	PRP Plan		230	230	230	230	230	368	523	523	523	523	523	838	
Maine Mutual	Master		182	192	182	192	192	307	415	437	437	437	437	698	3. $250 deductible
Allstate		1-2	191	204	216	216/235	235	317	409	438	462	462/503**	503	679	1.2.3.4.b.
	Town Class: >	3-4	197	204					421	438					
	**Outside City Limits	5-6	204	204/216**					438	438/462**					
State Farm			175	175	187	187	187	248	362	362	394	394	394	515	1.b. $250 deductible 5-10% discount for 3 yr. + renewals.
Hanover	Massachusetts Bay		189	189	189	189	198	318	416	416	416	416	437	379	
	Hanover		227	227	227	227	237	696	500	500	500	500	524	835	*1.a.b.c.
Vermont Mutual	Superior		163	163	163	163	163	261	371	371	371	371	371	593	*1.2.4.a.b.
	Standard		218	218	218	218	218	348	495	495	495	495	495	791	
Middlesex Mutual	Special		152	158	164	164	164	263	347	359	371	371	371	569	4. (Special, only)
	Standard		175	184	184	184	184	296	399	423	423	423	423	705	$250 deductible 1.b. (both)
Concord	Master		189	189	189	189	189	296	417	417	417	417	417	661	1.2.3.b.c. (Master, only)
	Standard		205	205	205	205	205	327	466	466	466	466	466	744	b.c. (Standard)
Andover Companies	Merrimack Mutual		205/164**	205/164**	205/164**	205/164**	205/164**	327/261**	465/372**	465/372**	465/372**	465/372**	465/372**	744/594**	**With Replacement Cost Credit
	Cambridge Mutual		218/174	281/174	218/174	218/174	218/174	348/279	495/396	495/396	495/396	495/396	495/396	792/633	a.b.4. (both)
Union Mutual Fire/New England Guaranty	Superior		174	174	174	174	174	278	396	396	396	396	396	632	4.a.b.
	Regular		205	205	205	205	205	327	466	466	466	466	466	744	
Aetna Life & Cas.	Standard Fire Ins. Co.		171	171	171	171	230	334	350	350	350	350	472	686	1.3.b. account credit
	Aetna Cas. & Surety Co.		215	215	215	215	288	418	442	442	442	442	590	859	
Patrons-Oxford Mut. Ins. Co.	Downeaster		179	179	179	179	179	286	407	407	407	407	407	651	4.b.c.
	Standard		256	256	256	256	256	409	582	582	582	582	582	930	
Mutual Fire Ins. Co. Saco	Preferred		179	179	179	179	179	286	407	407	407	407	407	651	1.3.4.b.
	Regular		230	230	230	230	230	368	524	524	524	524	524	837	
New Hampshire Insurance	Granite State		183	183	183	183	183	292	395	395	395	395	395	633	*1.3.b.
	N.H. Ins. Co.		229	275	229	275	275	364	495	596	495	596	596	779	
Peerless	Preferred		174	183	174	183	183	280	396	417	396	417	417	636	4.a.b.c. 5% credit for I.D. Kit
	Regular		215	226	215	226	226	343	489	513	489	513	513	780	
Royal Group	Royal Indemnity		178	178	178	178	178	286	405	405	405	405	405	651	5% account credit (Indemnity only)
	Royal Insurance Co.		238	238	238	238	238	381	540	540	540	540	540	867	4.
Liberty Mutual	Preferred		186	209	186	209	209	307	380	426	380	426	426	628	1.2.b. 2.5% Credit for 90% coinsurance
	Standard		202	227	202	227	227	334	414	463	414	463	463	682	
USAA			178	214	178	214	214	285	345	414	345	414	414	552	1.2.b.
I.S.O. (Including charge for $100 deductible)			282	395	338	395	395	450	640	876	759	876	876	990	

*200 Deductible

Special Credits Available
a. Non-smoking discount.
b. Extra Credit for smoke detectors.
c. If insuring both Homeowners and Auto.

Additional Coverages
1. Inflation Guard.
2. Higher Limit on Credit Card Theft/Forgery.
3. Dwelling amount increased 10% if no outbuildings.
4. "Guaranteed Replacement Cost" on Dwelling.

Printed under appropriation 4113.1

APPENDIX F

Campaign for Fair Rates & Equal Justice (FAIR)

ORGANIZATIONS SUPPORTING ANTI-TRUST REGULATION OF THE INSURANCE INDUSTRY

National

U.S. Federal Trade Commission
U.S. Justice Department
Small Business Legislative Council
Consumers Union
National Federation of Business and Professional Women's Clubs
National Council of Senior Citizens
National Conference of State Legislatures
U.S. Public Interest Group
AFL-CIO
Consumer Federation of America
American Association of Nurse Anesthetists
National Insurance Consumer Organization
Consumer Bankers Association
American Association of Retired Persons
Amalgamated Transit Union
Environmental Policy Institute
Environmental Action
Public Citizen's Congress Watch
National Association of Women Business Owners
Women's Equity Action League
American Nurses Association
Association of American Physicians and Surgeons

Maine

Maine Committee on Aging
Maine State Nurses Association
Maine AFL-CIO
Maine People's Alliance
Maine NOW
Maine Trial Lawyers Association
Natural Resources Council of Maine
Maine Audubon Society
Building and Construction Trades Council
Injured Workers, Inc.
Maine Association of Handicapped Persons
Maine Head Injury Foundation
Protect our Environment from Spray Toxins
International Brotherhood of Firemen and Oilers, Local #246
Maine Association of Interdependent Neighborhoods

P.O. Box 17534, Portland, Maine 04101 (207)761-4400

APPENDIX G

§ 221. Examination of insurers

1. For the purpose of determining its financial condition, fulfillment of its contractual obligations and compliance with the law, the superintendent shall examine the affairs, transactions, accounts, record and assets of each authorized insurer, and of any person as to any matter relevant to the financial affairs of the insurer or to the examination, as often as he deems advisable. Except as otherwise expressly provided, he shall so examine each domestic insurer not less frequently than every 5 years. Examination of an alien insurer shall be limited to its insurance transactions, assets, trust deposits and affairs in the United States, except as otherwise required by the superintendent.

2. The superintendent shall in like manner examine each insurer applying for an initial certificate of authority to transact insurance in this State.

3. In lieu of making his own examination, the superintendent may, in his discretion, accept a full report of the last recent examination of a foreign or alien insurer, certified to by the insurance supervisory official of another state.

4. As far as practical, the examination of a foreign or alien insurer shall be made in cooperation with the insurance supervisory officials of other states in which the insurer transacts business.

APPENDIX H

§221-A. Financial audit requirements

1. Purpose. The purpose of this section is to provide the superintendent with a means of improved financial monitoring of insurers doing business in this State. This mechanism of increased financial surveillance of insurers shall not be a substitute for financial examinations required or authorized by this Title generally.

2. Definitions. As used in the section, unless the context indicates otherwise, the following terms have the following meanings.

A. "Accountant" and "independent certified public accountant" mean an independent certified public accountant or firm licensed to practice in the State or in any state recognizing similar reciprocal licensing requirements and who is a member in good standing of the American Institute of Certified Public Accountants. It shall also mean, in the case of Canadian and British domiciled companies, a Canadian or British chartered accountant.

B. "Audited financial report" means a written report which meets the requirements of subsection 4.

C. "Insurer" means any insurance company doing business in the State pursuant to this Title and includes, but is not limited to, all life, accident and health, property and casualty, title, direct writing reinsuring companies and surplus lines companies regulated by the Bureau of Insurance.

3. Audits required. All insurers, excepting insurers transacting business in this State pursuant to the terms of chapter 51, shall cause to be conducted an annual audit by an independent certified public accountant and shall file an audited financial report with the superintendent on or before June 30th for the year ending December 31st preceding. An extension of the filing deadline may be granted by the superintendent upon a showing by the insurer or its accountant that there exists valid justification for such an extension.

4. <u>Content of annual audited financial reporting.</u> Annual audited financial reporting shall consist of the following.

A. Financial statements furnished under this section shall be examined by independent certified public accountants in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants. The opinion of the accountant shall cover all years for which a financial presentation is made.

The opinion expressed concerning the financial statements filed under this section shall conform with the accounting practices prescribed or permitted by the superintendent or the insurance supervisory official of the insurer's state of domicile. Insurers may elect to present financial statements filed under this section on the basis of generally accepted accounting principles if such statements contain a reconciliation of shareholders equity, surplus funds, and results of operations to the statutory basis of accounting required for insurers generally.

The opinion shall be expressed to the insurer by the accountant on his letterhead and shall show the address of the office issuing that opinion, shall be manually executed and shall be dated.

B. Financial statements, as a minimum, shall consist of:

(1) Balance sheet;

(2) Statement of gain or loss from operations;

(3) Statement of change in financial position;

(4) Statement of change in capital paid-up, gross paid-in and contributed surplus and unassigned funds, surplus funds; and

(5) Notes to financial statements.

C. The statement shall include an independent certified public accountant's report respecting evaluation of internal controls.

D. The statement shall include an independent certified public accountant's letter attesting to his qualifications, his possession of license and his subscription to the code of professional ethics and pronouncements issued by the American Institute of Certified Public Accountants.

5. Rules authorized. The superintendent shall promulgate such rules as shall be necessary to effectuate provisions of this section.

6. Application and effective date. For those insurers doing business in this State which are subject to this section, the filing of the initial annual audited financial reports required under this section shall be due June 30, 1986, covering the calendar year December 31, 1985. Similar recurring reports shall be due each June 30th thereafter.

7. Exemptions. Upon written application of any insurer subject to this section, the superintendent may grant an exemption of the filing requirements under this section if the superintendent finds upon review of the application that compliance would constitute a financial hardship upon the insurer.

If an insurer's annual statement reflects business in this State in an amount less than $100,000 in written premium for the preceding year, the insurer is exempt from the filing requirements of this section with respect to that year.

8. Required notice concerning adverse financial condition. Each insurer retaining an independent certified public accountant to represent it with respect to the report which the insurer is required to file pursuant to this section shall, as a condition of its written terms of engagement of the accountant, require that:

A. The accountant immediately notify in writing the chairman of the board of directors of the insurer and the superintendent upon any determination by the independent certified public accountant that the insurer has materially misstated its financial condition as reported in the annual statement required under section 423 for the year ending December 31st preceding; and

B. If the accountant, subsequent to the date of the audited financial report required by this section, becomes aware of material subsequent facts which would have affected his report, the accountant shall provide the pertinent information upon his determination to the parties identified in this subsection.

APPENDIX I

John R. McKernan, Jr.
Govenor

Joseph A. Edwards
Superintendent

DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE
(207) 582-8707
State House Station 34, Augusta, Maine 04333 — *Offices Located at:* — Gardiner Annex, Northern Avenue, Gardiner, Maine 04345

April 1988

HOMEOWNERS INSURANCE PREMIUM COMPARISON REPORT

The cost of homeowners insurance varies from company to company. An insurance company's rates are based on its claims experience, operating expenses and a reasonable margin for profit. Your premium will depend on the value insured, construction and protection, which are all explained in this report, as well as the rate structure used by the insurance company.

This report shows the range of premiums charged by the major insurers in the state, and shows that savings are available to the careful shopper. We urge the consumer to recognize that price is only one important factor which should be considered when selecting an insurance company. Policy provisions, claims practices, personal service by agent or sales representative, and company financial strength should be considered.

What is Homeowners Insurance?

Homeowners Insurance is a term used broadly to include insurance policies issued to persons who own and occupy a one or two family home, a condominium unit or persons who rent an apartment. A homeowners policy is a "package" of insurance coverage. It provides insurance protection for loss or damage to the home and/or personal property by fire, lightning, wind, hail, smoke, vandalism, theft, explosion, and other perils. It also covers garages or outbuildings, trees, plants and shrubs if damaged by most of the above causes. Personal liability and medical payments for persons other than you or your family, hurt on the insured premises are also covered. Additional living expenses when you have to rent temporary lodging while your house or apartment is being repaired, damage to the property of others, and protection against credit card forgery are also among the standard coverages of a homeowners policy. In addition to this basic protection, endorsements may be purchased to provide for individual needs.

Basically there are five kinds of homeowners policies available in Maine. Forms HO-1, HO-2 and HO-3 provide coverage for owner-occupants of one or two family houses. HO-4 is for people who rent a house or an apartment or condominium and HO-6 is designed for persons who own and occupy a condominium. The HO-1, HO-2 and HO-3 differ mainly in the types of losses they insure against. The HO-3 is the most common form written. It is an "all risk" policy in that it insures against damage to the building covered from any source except certain specified perils such as earthquake and flood. Contents or Personal Property is covered for a broad range of named perils.

How Much Homeowners Insurance Should You Buy?

Some of the things you should consider in deciding how much homeowners insurance you should buy are: the cost of the coverage, the current value of your home in terms of cost to replace it if it were totally destroyed, and, if a loss occurs, do you want to be fully reimbursed or are you willing to take a chance and assume a part of the loss? Market value may not be a good guide, especially when dealing with an older dwelling, also the value of your land and usually foundations should not be included. Renters and Condominium Unit Owners must determine their contents value and any other personal losses.

It is your responsibility to determine how much insurance to carry on your homeowners policy. Your insurance company or agent may assist you. The most common method used to determine the current replacement cost is to multiply the total square footage of the house by the construction rate per square foot. To this must be added such other factors as type of material used, interior design, special construction features, etc.

The most complete coverage available on a homeowners policy is replacement cost. This is coverage equal to what it would cost to rebuild your house if destroyed by fire or other covered perils. Under the replacement cost provision, no deduction would be made for depreciation regardless the age of the house as long as it is rebuilt. Again, it should <u>not</u> be confused with the market value of your house.

A special feature of most all homeowners policies is that if you insure your house for at least 80 percent of its full replacement cost, your insurance company will reimburse you for the full cost of repairing any damage up to the face amount of the policy. Some companies go even further, usually be endorsement, and guarantee full replacement cost even if above the policy limit. This requires you to meet certain requirements, including insurance to their appraised value.

An inflation guard endorsement may be added to your policy, usually for an additional premium. This will periodically increase your coverage to reflect increases in the replacement cost due to inflation.

If you do not insure your house to 80 percent of its replacement cost, most claims for damage or loss will be settled on the basis of the repair or replacement cost <u>less</u> depreciation.

Personal property or contents within a home are generally covered on an "actual cash value" basis. A 10 year old refrigerator is not worth so much as a 2 year old unit. However, usually for an additional premium, most companies will agree to settle losses to personal property within the home with the actual cost to replace the items involved. If you have unusual values in personal property, especially antiques, firearms, collectables, jewelry, furs, silverware, etc., you should review your situation with an agent because coverage for such is limited. As another alternative to "replacement cost" coverage, it may be appropriate to schedule certain valuable articles individually and indicate their appraised value, especially if these items — such as works of art and specialized equipment — may be one-of-a kind or hold sentimental value. An "agreed amount" endorsement might then be used; you and the insurance company would agree beforehand that, in the event of loss, this is the sum you would be paid, subject to the deductible. Of course you would have to pay a higher premium for this additional protection. You may instead be offered "stated value" coverage; this establishes the value of an article at policy inception and makes it the responsibility of the insurance company to disprove that figure if a claim occurs.

The basic limits on Personal Liability and Medical Payments are $100,000 and $1,000 respectiv
Higher limits are available from all companies for a relatively small additional premium.

Two perils not covered under the standard homeowners forms are flood and earth movement. M communities have qualified for the federal flood insurance program, and most insurance agents can p vide the necessary information. Earthquake insurance can be purchased separately or added t homeowners policy by endorsement.

How is the Cost of Homeowners Insurance Determined?

Homeowners premiums are based on the experience of the insurance companies who have be writing business in this state, from which factors have been developed to reflect differences in constr tion, protection and size of policy. There are two construction classes; however, protection is usu divided into four categories. To achieve this, your municipality has been classified as to the quality fire protection provided, and is assigned grades running A through F.

Grade A applies to Portland and South Portland, while most of the smaller cities are graded B. The maining cities and the larger towns usually qualify for Grade C, with most small towns with hydr systems meeting Grade D. Grade E is assigned to municipalities having a qualifying fire department l no recognized water supply, and all others are Grade F. Insurance agents and many fire departme have access to these classifications.

Your location in the municipality may also affect your premium, as many companies limit the lo premiums to property near hydrants and/or fire departments. Most companies now recognize 1000' hydrant distance, and 5 miles for fire stations.

Most premiums shown reflect a $100 deductible, but credits as high as 30% are offered for hig deductibles. A $500 deductible receives a 20% credit from most companies, while $250 usually devel a credit of 10%.

Premium Chart

The following chart shows a comparison of the annual premiums charged by the leading insurers this state in April of 1988. Some companies or groups of companies have more than one pricing syste in which case, we have shown premiums for both the preferred program and the program having highest volume.

Some companies have additional credits which may apply to your property, while other compani may have changed their rates since this report was prepared. Therefore, this comparison should be view as an indication of existing competition and the value of shopping around, and not as a price list.

The preferred programs frequently have eligibility requirements which may not be available to all pr erty owners. These may include age of building, year round occupancy, loss experience or full insuran to value.

Premiums are for both a $60,000 and a $120,000 Form 3 or "all risk" building policy for dwellin located either within 1000' of a hydrant and "over 1000' but within 5 mi[illegible] city with a Grade of A, B or C, a premium for the same situation in Grade D Towns and the "within 5 n premium for a Grade E Town. Many companies have simplified this and use the same premiurr several classes of protection. Finally, the preimum is shown for a Grade F Town. This premium alsc plies to most properties over 5 miles in the other towns.

Additional Coverages and Discounts

Many companies provide additional coverages at no cost, while others may make a charge. premium chart includes a check list which attempts to show some of the more common extras provi by the companies surveyed. This is not a complete list, as some companies have policies which have ther coverages.

Some companies grant special discounts for various features. These may include additional credit smoke detectors, credit for non-smokers, and special safety requirements.

Inventories

Property owners should keep an inventory of important personal belongings with the original cos each, including serial numbers of cameras, guns and items which are attractive to thieves. This can h document your accurate claim, in case of loss. Such a list should be kept in a safe place, such a relative's home. Inscribing identification, such as your social security number is also helpful in recov ing stolen property. Many police departments cooperate in such programs. A photographic record is a a method of documenting your inventory. This can be on slides or videotape.

Prevention

Finally, remember that insurance is intended to protect you from financial loss. It cannot ease t mental and sometimes physical pain and anguish which results from a fire, theft or accident.

Smoke detectors, evacuation plans, properly installed and maintained woodstoves, good housekee ing, and safe storage of flammables can prevent or reduce the danger of fire. Common sense preca tions against such accidents such as window guards, railings, good lighting, and secure rugs all produ a safer home. As a bonus, the loss you prevent as an individual contributes to lower rates for us all

DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE
STATE HOUSE STATION 34
AUGUSTA, MAINE 04333

GROUP AND/OR COMPANY OR PROGRAM: (as listed by market share)			A, B & C within 1000'	A, B & C within 5 miles	D within 1000'	D within 5 miles	E within 5 miles	F over 5 miles	A, B & C within 1000'	A, B & C within 5 miles	D within 1000'	D within 5 miles	E within 5 miles	F or over 5 miles	Additional Conditions, Credits and Coverages (See Footnotes)
Maine Bonding and Cas. Co.	Homemaster		174	174	174	174	183	232	395	395	395	395	416	643	b.
	Maine Bonding		227	227	227	227	240	382	516	516	516	516	544	841	
Commercial Union	Northern Assurance		176	176	176	176	185	281	399	399	399	399	420	639	1.4.b.
	Commercial Union		263	263	289	289	329	420	598	598	658	658	744	957	
York Mutual	HO-80		205	205	205	205	205	327	466	466	466	466	466	744	*b.c.
	PRP Plan		230	230	230	230	230	368	523	523	523	523	523	838	
Maine Mutual	Master		182	192	182	192	192	307	415	437	437	437	437	698	3. $250 deductible
Allstate		1-2	191	204	216	216/235	235	317	409	438	462	462/503**	503	679	1.2.3.4.b.
	Town Class: >	3-4	197	204					421	438					
	**Outside City Limits	5-6	204	204/216**					438	438/462**					
State Farm			175	175	187	187	187	248	362	362	394	394	394	515	1.b. $250 deductible 5-10% discount for 3 yr. + renewals.
Hanover	Massachusetts Bay		189	189	189	189	198	316	416	416	416	416	437	379	
	Hanover		227	227	227	227	237	696	500	500	500	500	524	835	*1.a.b.c.
Vermont Mutual	Superior		163	163	163	163	163	261	371	371	371	371	371	593	*1.2.4.a.b.
	Standard		218	218	218	218	218	348	495	495	495	495	495	791	
Middlesex Mutual	Special		152	158	164	164	164	263	347	359	371	371	371	569	4. (Special, only)
	Standard		175	184	184	184	184	295	399	423	423	423	423	705	$250 deductible 1.b. (both)
Concord	Master		189	189	189	189	189	296	417	417	417	417	417	661	1.2.3.b.c. (Master, only)
	Standard		205	205	205	205	205	327	466	466	466	466	466	744	b.c. (Standard)
Andover Companies	Merrimack Mutual		205/164**	205/164**	205/164**	205/164**	205/164**	327/261**	465/372**	465/372**	465/372**	465/372**	465/372**	744/594**	**With Replacement Cost Credit
	Cambridge Mutual		218/174	281/174	218/174	218/174	218/174	348/279	495/396	495/396	495/396	495/396	495/396	792/633	a.b.4. (both)
Union Mutual Fire/New England Guaranty	Superior		174	174	174	174	174	278	396	396	396	396	396	632	4.a.b.
	Regular		205	205	205	205	205	327	466	466	466	466	466	744	
Aetna Life & Cas.	Standard Fire Ins. Co.		171	171	171	171	230	334	350	350	350	350	472	686	1.3.b. account credit
	Aetna Cas. & Surety Co.		215	215	215	215	288	419	442	442	442	442	590	859	
Patrons-Oxford Mut. Ins. Co.	Downeaster		179	179	179	179	179	286	407	407	407	407	407	651	4.b.c.
	Standard		256	256	256	256	256	409	582	582	582	582	582	930	
Mutual Fire Ins. Co. Saco	Preferred		179	179	179	179	179	286	407	407	407	407	407	651	1.3.4.b.
	Regular		230	230	230	230	230	368	524	524	524	524	524	837	
New Hampshire Insurance	Granite State		183	183	183	183	183	292	395	395	395	395	395	633	*1.3.b.
	N.H. Ins. Co.		229	275	229	275	275	364	495	596	495	596	596	779	
Peerless	Preferred		174	183	174	183	183	280	396	417	396	417	417	636	4.a.b.c. 5% credit for I.D. Kit
	Regular		215	226	215	226	226	343	489	513	489	513	513	780	
Royal Group	Royal Indemnity		178	178	178	178	178	286	405	405	405	405	405	651	5% account credit (Indemnity only)
	Royal Insurance Co.		238	238	238	238	238	381	540	540	540	540	540	867	4.
Liberty Mutual	Preferred		186	209	186	209	209	307	380	426	380	426	426	628	1.2.b. 2.5% Credit for 90%
	Standard		202	227	202	227	227	334	414	463	414	463	463	682	coinsurance
USAA			178	214	178	214	214	285	345	414	345	414	414	552	1.2.b.

*200 Deductible

Special Credits Available
a. Non-smoking discount.
b. Extra Credit for smoke detectors.
c. If insuring both Homeowners and Auto.

Additional Coverages
. Inflation Guard.
. Higher Limit on Credit Card Theft/Forgery.
. Dwelling amount increased 10% if no outbuildings.
4. "Guaranteed Replacement Cost" on Dwelling.

Printed under appropriation 4113.1

New Letterhead

March 1988

Automobile Insurance Premium Comparison Report

The cost of automobile insurance may vary greatly depending upon which company you choose. An insurance company's rates are generally based upon the claims it must pay out, operating expenses, and a reasonable margin for profit. The premiums you pay for insurance will be higher or lower depending upon the amount of insurance you buy, the type of policy issued, where you live, the type of auto you drive and how it is used, the age and driving record of drivers, the underwriting emphasis of the company and other pertinent factors.

There are many ways in which you as an insurance buyer may be able to control the cost of auto insurance. Here are several suggestions:

Shop around. Insurance rates are not all the same and may vary significantly from company to company. Obtain information about rates, service and claims practices from a number of companies and agents.

Use Deductibles. Your auto insurance rates will decrease as you raise the deductible amounts on your policy. A deductible is the amount of a loss that you pay. For example, if you have a deductible of $250 and have $1,000 worth of damage, you pay the first $250 and the insurance company pays the remainder. Compare the premiums at different levels.

O.U.I. Penalties and costs for OUI are not limited to bail, fines and attorney's fees. Both criminal and civil OUI convictions result in surcharges of 100% or more and usually force your insurance into the assigned risk pool or other high risk program for at least 3 years. Such a record also reduces your chances for participating in preferred programs in the future.

For example, Rating Example 1 in Portland insured under a preferred plan could wind up paying almost double the premium shown for the same example in the Maine Auto Plan - which translates to an increase of OVER $1,000 in insurance cost alone, starting as soon as the company learns of such infraction. The convicted insured also loses the protection of the Cancellation Control Act.

Check the cost of insurance before buying a new car. Highpowered or expensive automobiles, those attractive to thieves, or ones with a high cost of repair rating, all cost more to insure. Take this into consideration as you select a new automobile. Insurance costs for models in the same price range can vary from $80 to $150 or more a year when both collision and comprehensive are purchased. Damage resistant bumpers can also reduce insurance costs.

Drive Safely. Your driving record has a direct effect upon your insurance premiums. Traffic violations and serious or costly accidents in which you are at fault will generally increase your rates.

Take advantage of special discounts. There are a variety of premium discounts offered by insurance companies among which are the following: "good student" discounts for young drivers with good academic records, discounts for insuring two or more cars on the same policy, "good driver" discounts having had no accidents or serious traffic violations as well as for young drivers who have completed driver education courses, car pool discounts, consideration for properly installed and approved anti-theft devices and passive restraints, and low mileage discounts. Some companies allow a credit if the insured's dwelling is written on a homeowners policy in the same company or group.

Eliminate unnecessary coverages. Carefully consider not insuring for comprehensive or collision on older vehicles. Your need for higher uninsured motorist and/or medical payment limits may be tempered by an individual's situation. An older driver, retired with pension and Medicare does not have the needs of a young father who has only a minimum health plan and no extensive sick leave program.

Be persistent. If you have been turned down by one insurance company because you had an auto accident or traffic violation, try other companies. Do not assume that you will be turned down by all companies. Keep trying. If all fails and you are unable to obtain auto insurance, any licensed agent can obtain insurance for you through the Maine Automobile Insurance Plan. The "Assigned Risk" plan should be a last resort because the premium rates are generally higher than those offered on a voluntary basis.

Footnotes
(See rating table)

* $50,000 Combined Single Limit except as noted

a. Medical payment limit is $1,000 or higher

b. Annual mileage less than 7500 miles

c. For Berwick, Lebanon, No. Berwick, Ogunquit, So. Berwick and Wells, see Remainder of State; for Hampden-Hermon & Brewer, see Bangor

d. Bangor Area premiums total $266, $606, & ineligible

e. Bangor Area premiums total $332, $758, and $462

f. Does not qualify due to driver's age or experience or for new business

g. Augusta-Gardiner premiums total $245, $594, and $287

h. Subject to Dividend - Not guaranteed

Borrowed or Rented Autos. Most liability coverage protects you when driving another vehicle. Occasional use of a borrowed or rented vehicle is covered [redacted]rty damage, except for damage to the vehicle you are driving. Coverage on this varies from company to company. Usually, if you have purchased collision and comprehensive on your own car, it will extend to such vehicles.

Anyone renting a Car ~~car~~ should be aware of what their own auto policy covers, and what the rental agreement specifies regarding your liability. Some agreements make you liable for the loss of use of the vehicle which is not covered on most automobile policies. Anyone renting a car should be aware of what their policy covers and what the rental agreement requires in order to make an intelligent decision on the need for a collision damage waiver.

The comparison lists the annual premiums charged by the twenty leading automobile insurers in the state of Maine, using rates effective [redacted] March 1,
Because rates can change periodically, the primary value of such a comparison is in illustrating that competition exists and that all insurance companies do not charge the same rate.

CAVEAT. The danger in publishing such a rate comparison is that the consumer will not realize that auto insurance rating is a complex procedure and is based upon many variables. Price is only one important factor that should be considered when selecting an insurance company. Policy provisions, claims practices, personal service by agents or sales representatives and company financial strength are other important factors.

Insurance companies establish geographical rating territories based upon claims experience. There are as many as [redacted] such territories in Maine depending upon the company. The place where the automobile is principally garaged will determine which territorial rates are used.

two

[redacted]ating examples have been shown to compare premiums for three drivers of different ages having different driving records, using the same model vehicle, but with different use of the vehicle.

> Rating Example No. 1 - These are premiums for an adult driver, married, 35 years of age, no accidents or convictions, car pools 2 days a week - 12 miles one way.

> Rating Example No. 2 - These are premiums for an 18 year old male with driver education - licensed 3 years - not principal operator. No accidents or convictions for any operator. Parents are only other named operators. Pleasure use.

The vehicle in each example is a 1986 Ford Tempo GL 2-door sedan Symbal 6.

Coverages [redacted] rating examples are as follows:

$20,000 per person/$40,000 per accident - Bodily Injury Liability
$10,000 per accident - Property Damage Liability
or, as noted by *
$50,000 Combined Single Limit Liability

$500 - Medical Payments
$100 - Deductible Comprehensive

$200 - Deductible Collision
$20,000 per person/$40,000 per accident - Uninsured Motorists

Policy limits for liability coverages are the minimum financial responsibility limits and are in no way intended to suggest adequate limits - they are selected for rate comparison purposes only.

The so called "Single Limit Policy" is a little more expensive than the "Split Limit Policy", however, with today's costs for medical attention, law suits, and repairs for autos, trucks and other property, it can be a good value.

Such a policy makes the entire limit available to respond to any liability claims (resulting from an accident) rather than a total bodily injury limit for each accident, a sub limit for each person, and a separate limit for property damage.

This automobile comparison should be used as a guide only. While it does show which companies have rates that are higher or lower in the specific examples listed, the relative position of a company's rates may vary substantially in particular cases.

To use this comparison, find the territory column for the location where the car is garaged. Letters after a Company name refer to the footnotes, and deal with differences in coverage, rating method or territory.

[redacted]

1988

GROUP AND/OR COMPANY OR PROGRAM	Split Limit	City of Portland (except Islands) Example: 1	2	Cape Eliz- abeth, Fal- mouth So. Port. Westbrook Example: 1	2	No. Aroos- took Madawaska Ft. Kent etc. Example: 1	2	Cumberland Gorham, Gray Long & Peaks Is. Standish So. Windham, Yarmouth Example: 1	2
Aetna: Aetna Cas & Surety		518	1050	420	848	460	930	446	904
Aetna Ins. Co. of Htfd.		664	1350	548	1112	598	1214	584	1186
Allstate Ins. Co.	X	332	812	302	748	286	698	312	780
Comm. Union: Empl. Fire Ins. Co.	X	458	951	388	804	364	753	362	748
Commercial Union	X	540	1123	450	934	426	884	422	876
Concord Gr: Concord Gen. Mut.		557	1160	453	937	443	917	472	978
Green Mountain		690	1441	560	1167	550	1142	585	1218
Hanover: Mass. Bay		491	1114	431	977	415	940	432	978
Hanover		608	1383	533	1210	514	1166	534	1212
Hartford Ins. Hfd. Cas. Ins. Co.	X	638	1169	524	955	517	940	544	993
Hfd. Acc. & Ind. Co.	X	738	1364	605	1112	596	1094	629	1156
Horace Mann	X	380	999	295	787	287	767	348	919
Liberty Mutual Fire Ins. Co.	X	457	985	412	895	378	755	382	837
Maine Bond. & Cas: Automaster		526	1291	446	1091	454	1111	466	1141
Standard		620	1526	536	1316	574	1411	538	1305
Maine Mutual Fire Ins. Co.		393	934	393	934	393	934	393	934
Metropol. Prop. & Liab. Ins. Co.	X	498	1002	421	847	409	818	441	891
NH Ins. Gr.: Granite St. Ins. Co.		540	1123	445	924	436	905	466	96
NH Ins. Co.		718	1497	589	1226	576	1199	615	128
Patrons-Oxford Mut: Preferred		482	997	408	842	380	785	412	85
Standard		564	1171	477	988	445	922	482	99
Peerless: *Preferred	X	538	1280	427	968	417	960	413	93
Standard	X	615	1402	489	1111	475	1080	475	108
Prudential Prop. & Cas. Ins. Co.	X	506	929	466	854	384	702	434	79
State Farm Mut. Auto. Ins. Co.	X	338	933	310	856	279	770	309	85
Travelers Ind. Co.: Preferred	X	446	1021	347	792	363	830	352	80
Standard	X	558	1276	434	990	454	1038	440	100
USAA	X	460	965	378	787	372	774	393	81
USF&G: Fid. & Guar. Ins. Co.		464	963	373	773	378	781	366	7
U.S. Fid. & Guar. Co.	X	551	1150	436	930	442	915	446	9
York Mut. Prof. Auto Plan		478	1386	430	1246	411	1191	411	11
NON STANDARD INSURERS & ASSIGNED RISK PLAN (250 Deductible on Collision.)									
Dairyland Ins. Co.	X	912	2460	768	2112	780	1524	744	20
Maine Auto Ins. Plan	X	832	1387	714	1194	683	1141	721	12
Progressive Cas. Ins. Co.	X	714	2068	656	1864	650	1824	650	18

Footnotes:
*Ineligible

b. $250 deductible collision

Caribou, [illegible] Houlton, Etc.		Brewer		Saco, Old [illegible]		Auburn		Gardiner Hallowell Farmdale Randolph		Winslow Fairfield		York, Wells [illegible] south		[illegible]	
Example:		Example:		Example:		Example:		Example:		Example:		Example:		Example:	
1	2	1	2	1	2	1	2	1	2	1	2	1	2	1	2
420	850	446	902	446	902	446	902	454	918	454	918	435	880	447	904
542	1098	600	1218	600	1218	600	1218	588	1194	590	1198	564	1144	592	1201
284	700	320	806	322	812	342	866	312	788	312	788	300	746	299	737
338	699	382	791	382	791	382	791	364	753	364	753	342	707	364	753
392	813	448	930	448	930	448	930	424	880	424	880	398	825	430	893
433	896	500	1039	500	1039	500	1039	474	984	474	984	431	892	469	972
537	1115	621	1291	621	1291	621	1291	587	1222	587	1222	533	1111	582	1211
380	858	435	985	435	985	435	985	427	968	427	968	388	876	441	998
471	1068	538	1222	538	1222	538	1222	527	1197	527	1197	480	1089	549	1247
504	915	574	1050	574	1050	574	1050	546	994	546	994	501	910	544	990
581	1065	664	1223	664	1223	664	1223	630	1158	630	1158	579	1060	628	1154
287	767	341	904	351	927	347	919	350	926	319	849	283	758	332	880
357	753	409	895	398	871	398	871	396	573	392	855	360	780	401	857
390	951	444	1086	444	1086	438	1071	414	1011	460	1126	396	966	428	1046
474	1161	556	1366	556	1366	544	1336	492	1206	544	1336	492	1206	526	1291
393	934	380	907	380	907	380	907	380	907	380	907	380	907	362	861
401	803	450	909	450	909	450	909	432	871	432	871	434	872	451	909
405	840	490	1018	490	1018	477	991	457	949	456	947	411	852	442	917
534	1110	647	1448	649	1352	633	1318	607	1264	602	1253	542	1127	583	1213
380	785	443	917	443	917	443	917	422	873	422	873	384	793	420	869
445	922	519	1078	519	1078	519	1078	494	1024	494	1024	449	931	492	1021
399	906	434	985	460	1045	460	1045	416	944	416	944	378	857	429	974
458	1043	497	1130	526	1196	526	1196	475	1080	475	1080	433	982	491	1117
413	757	432	792	432	792	432	792	440	808	440	808	428	784	NA	NA
279	770	317	874	331	915	317	874	303	837	303	837	279	770	284	782
365	830	374	856	386	882	386	882	358	816	358	816	374	856	363	830
456	1038	468	1070	482	1102	482	1102	448	1020	448	1020	468	1070	454	1037
364	755	415	867	415	867	415	867	394	821	394	821	361	749	392	817
347	717	415	861	415	861	415	867	372	770	372	770	347	717	392	812
413	854	513	1067	502	1041	502	1041	460	954	460	952	411	850	472	978
411	1191	430	1246	430	1246	430	1246	430	1246	430	1246	411	1191	411	1191
780	2076	828	2268	828	2268	828	2268	744	2052	744	2052	708	1944	768	2064
683	1141	772	1289	772	1289	772	1289	740	1230	740	1230	673	1131	746	1260
650	1824	748	2148	748	2148	748	2148	656	1864	656	1864	650	1864	650	1864

APPENDIX J

John R. McKernan, Jr.
Governor

Joseph A. Edwards
Superintendent

DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE
(207) 582-8707

November 3, 1988

To: Members of the Joint Standing Committee on Banking and Insurance

From: Jeri Gautschi, Deputy Superintendent, Bureau of Insurance

Subject: Consumer Activities

A reorganization plan at the Bureau of Insurance was begun before the last legislative session. After legislation essential for the reorganization was passed by the Legislature last April, Bureau staff began to implement the many changes related to the reorganization. Consumer services was a priority in this review, analysis, and implementation. Several new procedures and new consumer services have been implemented or are presently in the process of implementation.

Five staff members from the Property/Casualty, Life/Health, Consumer, and Market Conduct Divisions attended a newsletter workshop in October where they learned techniques for setting up attractive and useful publications. These five people plus another Bureau employee with a background in publishing will comprise a Bureau publication team. Schedules for various publications have been set so that these publications will be released on a regular basis in a timely fashion. In the future as soon as the publications are ready we plan to have press releases and public service announcements. We will continue our current practice of making these publications available to all libraries in the State.

Members of our staff have also begun preparing a series of short informational articles directed at consumers on various topics. These articles will be released in brochure form and as newspaper articles.

Our consumer division is now "computerized". Fiscal year 89-90 will be the first fiscal year that all complaint information will be accessible through the computer. We will now be able to discover patterns of complaints against agents or insurance companies. This information will be used by our new

State House Station 34, Augusta Maine 04333 — *Offices Located at:* Gardiner Annex, 124 Northern Avenue, Gardiner, Maine 04345

Market Conduct Division to target investigations.

We have also instituted new procedures in the consumer division in order to be able to respond to consumer complaints more quickly. These new procedures are necessary in order to keep up with the escalating number of complaints. We are currently receiving an average of thirty-five calls a day from consumers.

The new Market Conduct Division should be fully staffed by January. Once the Market Conduct Division is fully staffed, and trained, we plan to investigate agents and insurers for unfair trade practices, improper claims practices and false advertising, on a regular basis. The Market Conduct Division will also be responsible for coordinating the Bureau's programs to educate the public on insurance topics.

Our new Market Conduct Examiner began work with us on October 31, 1988. She has begun work on several investigative projects since her arrival.

We are all very excited about the new consumer services we are implementing. The Bureau staff is committed to giving the consuming public assistance in insurance matters.

JG/lm

APPENDIX K

§ 2328. Examinations

The superintendent shall examine the affairs, transactions, accounts and records of each rating organization licensed in this State as provided in section 2310, of each advisory organization in this State as defined in section 2321, and of joint underwriters and joint reinsurers as defined in section 2322, as often as he deems advisable, but not less frequently than once every 5 years. The examination shall be conducted in the same manner and is subject to the same applicable provisions as apply to examination of insurers in chapter 3. The reasonable costs of any such examination shall be paid by the organization or association so examined. In lieu of any such examination, the superintendent may accept the report of an examination made by the insurance supervisory official of another state, pursuant to the laws of such state.

APPENDIX L

FIRST REGULAR SESSION

ONE HUNDRED AND FOURTEENTH LEGISLATURE

Legislative Document No.

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY NINE

AN ACT Providing for a Report on the Availability of Insurance and Level of Competition Within the Insurance Industry in Maine and a Report on Insurance Rating Organizations in Maine.

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 24-A MRSA §221-B is enacted to read:

§221-B. Competition and availability of insurance

1. General review. The Superintendent of Insurance shall review annually each authorized insurer in each line of insurance in the State for which a rating organization is authorized to file rates. The superintendent shall review individual insurers involved in those specific lines for which the superintendent has a reasonable cause to believe that competition may not be an effective regulator of rates for the purpose of determining the level of competition among insurers providing those lines and the availability of insurance within those lines.

2. Review of specific lines of insurance. In the superintendent's determination of the specific lines of insurance to be reviewed pursuant to subsection 1, the superintendent shall consider:

A. The number of insurers actually writing insurance within the line;

B. The extent and nature of rate differentials among insurers within the line;

C. The respective market share of insurers actually writing insurance within the line and changes in that market share over previous years;

D. The ease of entry into the line by insurers not currently writing such line;

E. The degree to which rates within the line are established by rating service organizations;

F. The extent to which insurers licensed to write the line have sought to obtain new business within the line within the past year;

G. Whether a pattern of excessive rates exists within the line in relation to losses, expenses and investment income; and

H. Any other factors the superintendent considers relevant to the determination of whether competition is an effective regulator of rates within the line.

3. Report required. The superintendent shall submit a report or reports on those lines of insurance which the superintendent has specified as lines for which competition may not be an effective regulator of rates. The report shall include recommendations to provide a more competitive atmosphere. The report or reports shall be submitted annually to:

A. The joint standing committee having jurisdiction over banking and insurance;

B. The Governor; and

C. The Office of the Attorney General.

4. Rules authorized. The superintendent shall promulgate the rules necessary to carry out this section.

Sec. 2. 24-A MRSA §2328, as amended by P.L. 1973, c. 585, §12 is further amended by adding a new paragraph to read:

If the examination of a rating organization is satisfied by acceptance of another state's report on that rating organization, the superintendent shall submit a report to the joint standing committee of the Legislature having jurisdiction over banking and insurance concerning his analysis of that report, any deficiencies noted by the superintendent or in the other state's report, and on what action has been taken to correct those deficiencies.

STATEMENT OF FACT

Section 1 of this bill requires the Superintendent of Insurance to monitor annually each authorized insurer in the State of Maine if the superintendent has reasonable cause to believe that competition may not be an effective regulator of rates within a line of insurance. The bill establishes standards by which the superintendent may determine whether there is reasonable cause to believe that competition may not be an effective regulator of rates within each line. The bill also requires that the superintendent more closely review those lines for which he has determined there is reasonable cause to believe that competition is not an effective regulator of rates and to report his findings to the joint standing committee of the Legislature having jurisdiction over banking and insurance, to the Governor and to the Office of the Attorney General.

Section 2 of the bill requires the superintendent to report to the Banking and Insurance Committee on the results of the examination of insurance rating organizations. That examination is already required by law.

6858