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REQUIREMENT TO FILE UNDERWRITING INFORMATION CONSIDERED TO BE SUPPLEMENTARY RATE INFORMATION FOR PERSONAL LINES OF PROPERTY AND CASUALTY INSURANCE AND OTHER LINES SUBJECT TO RATE REGULATION

The Division issues this bulletin to remind insurers that any mathematical model used in underwriting or rating of any personal line of property and/or casualty insurance, or other line of property and/or casualty insurance subject to regulation of rates pursuant to NRS 686B.030, must be filed with the Division for prior approval pursuant to NRS 686B.110.

Among the information required to be filed with the Division pursuant to NRS 686B.070(1) is “Supplementary rate information,” which is defined in NRS 686B.020(4) as including any “rating rule” or “rule of underwriting relating to rates.” By definition, any underwriting rule or model used in underwriting that affects the premium that any insured would pay is a “rule of underwriting relating to rates.” Calling a model an underwriting model rather than a rating model does not affect the applicability of this requirement.

The following are examples of underwriting rules and predictive models that must be filed with the Division and are subject to the Division’s prior-approval authority:

● **Models and rules that determine placement of an insured within a tier where the tier placement is considered as a variable within the insurer’s rating plan**

Tiering is considered to be rating by definition since tiering is merely an intermediate step between the underlying characteristics of the risk and the rating treatments ultimately assigned based on those characteristics.

• Models and rules that determine placement of an insured within one of several affiliated companies within a group, where each company would have a different rating plan and would possibly charge different rates to otherwise identical risks
Because company placement directly determines the insured's premium, such underwriting models are also necessarily considered to be rating models.

• Models that compute any manner of score or index used as either a direct rating variable or a determinant of eligibility or company placement, in whole or in part, if there is a possibility for such models to affect the premium that the insured is charged
Examples include, but are not limited to, models based on credit information, geographical location, peril-specific risk estimation, or any demographic information. Any model that utilizes a mathematical algorithm to calculate a score or index for eligibility purposes, and that is capable of being utilized for rating by any insurer, is also considered a rating model since the decision to reject a risk based on a score or index is considered to be a more extreme variant of a decision to surcharge that risk based on the same score or index. Rejecting any risks based on numerical indices would also affect the composition of the ultimately insured risks and thus would have an impact on the insurer's loss experience and actuarially indicated rates. Furthermore, the Division is concerned that rejecting risks *solely* based on certain location-based indices would constitute a prohibited form of imposed unavailability of insurance in some areas of Nevada, and would thus be unfairly discriminatory. Use of particular location-based indices for the purposes of territorial rating may be approved if appropriately filed and justified by relevant supporting data as determined in the course of the Division's review.

• Models that determine the extent to which an insurer relies on an actuarially indicated change to a base rate or relativity
These would include any "price optimization" models that an insurer might use to determine the extent to which a selected relativity moves toward the indicated relativity. Such models may not utilize *any* non-risk-based attributes such as price elasticity of demand or consumer tendency to complain or shop for insurance. All risk-based attributes that such models use must be fully disclosed to the Division along with the specific quantitative treatments of each of those attributes.

The Division considers all of the aforementioned to fall under the purview of long-standing statutes and precedents. However, the proliferation of complex predictive models that some insurers have termed "underwriting models" has led to the necessity to reiterate such requirements. Nevada's filing and prior-approval requirements continue to apply irrespective of the complexity of the algorithms utilized by insurers or the labels given to those algorithms.

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Commissioner of Insurance