

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Review of the Insurance Rate Increase Request by AIG Hawaii, Inc.

### Summary

We found that a 44 percent increase in automobile insurance rates granted AIG Hawaii, Inc. by the Insurance Division of the Department of Commerce and Consumer Affairs was fair and justifiable. Questions were raised about the increase because a few months after the increase was granted, the then Insurance Commissioner resigned and, shortly thereafter, accepted a position as president of AIG Hawaii, Inc.

Legislators expressed concern about the Insurance Commissioner's potential conflict-of-interest and public perceptions of unethical behavior on his part. The Legislature requested the State Auditor to review AIG Hawaii's rate filing, to identify the procedures used by the Insurance Division in reviewing the request, and to determine if the division used appropriate industry standards for granting the rate increase.

We contracted with the Casualty Actuarial Practice of KPMG Peat Marwick to conduct the review. Our consultant reviewed AIG Hawaii's 1990 and 1991 rate filings as well as the 1990 and 1991 rate filings of other major automobile insurers in Hawaii.

KPMG Peat Marwick found that the standards and procedures established and used by the Insurance Division for granting rate increases to motor vehicle insurance companies comply with Hawaii's insurance rating laws, with generally accepted actuarial principles of ratemaking, and with recognized industry standards. It also found that the division's standards and procedures are fair and thorough but not formally documented.

As to the 44 percent rate increase granted AIG Hawaii, KPMG Peat Marwick found that the increase was warranted and the Insurance Division's review complied with (a) the standards and procedures established by the Insurance Division, (b) Hawaii's motor vehicle insurance rating laws, and (c) generally accepted actuarial principles of ratemaking. It also found that the Insurance Division's standards and procedures were fairly and consistently applied to all companies whose rate filings were reviewed; and AIG Hawaii's rates were not out of line with those of other insurers in the State.

## **Recommendations and Response**

We recommended that the Insurance Division develop a policy and procedures manual for reviewing rate request filings and for documenting that procedures have been followed. We also recommended that it document its review of rate filings through the use of a checklist or other formal document. Further, we recommended that the division's consulting actuary be required to provide written documentation of his review of rate filings.

The department concurs with our recommendations and is in the process of developing and implementing a procedural checklist for the Insurance Division's use in reviewing insurance rate filings.

---

**Marion M. Higa**  
**Auditor**  
**State of Hawaii**  
Office of the Auditor  
465 South King Street, Suite 500  
Honolulu, Hawaii 96813  
(808) 587-0800  
FAX (808) 587-0830