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June 8, 2011

**Memorandum 2011-1R**

**TO:** All Homeowners' Insurers

**FROM:** Gordon I. Ito  
Insurance Commissioner

**RE:** All Homeowners' Insurers are Mandated to Submit New Filings

The Insurance Commissioner is aware that incurred losses and loss ratios for homeowners' insurance in Hawai'i have seen significant improvement in recent years. These are indicators of continually improving claim experience in the State.

According to the National Association Insurance Commissioners ("NAIC") 2009 Profitability Report and the Insurance Services Office, Inc. ("ISO") Fast Track data, Hawai'i's losses are at levels which may indicate returns on equity for the insurance industry are excessive. Through his review of this information, the Insurance Commissioner finds the following:

1. The calendar year 2009 NAIC Profitability Report states for all Hawai'i insurers the losses incurred for Homeowners' Multiple Peril is 16.9% of premium;
2. The ISO Fast Track data for Hawai'i indicate the current loss ratio for homeowners insurance has been below 25% for several quarters; and
3. The ISO Fast Track data also show pure premium trends for Hawai'i homeowners insurance coverage have been decreasing over the past few years and have continued to decrease in the most recent calendar quarters analyzed.

These losses are far below the losses necessary for insurers to earn reasonable rates of return on equity for the homeowner's line of business in Hawai'i. Calendar year loss ratios, while not appropriate for directly making rates, provide the Insurance Commissioner with actuarially sound information that current rates may be excessive. Therefore, the current profits being earned by Hawai'i homeowners' insurers may also be excessive.

Section 431:14-103.3, Hawai'i Revised Statutes ("HRS"), states:

a) Except as otherwise provided by law, the commissioner may mandate insurers to submit new filings for any type of insurance under section 431:14-102 when the commissioner has actuarially sound information that current rates may be excessive, inadequate, or unfairly discriminatory.

(b) Insurers shall submit the new rate filings within one hundred twenty days of the commissioner's mandate.

(c) The new rate filings shall be subject to the rate filing requirements under section 431:14-104.

Per the requirement of subsection (b), filings are due within 120 days of the date of Memorandum 2011-1R. Accordingly, filings will be due by the close of business on October 6, 2011. However, the Insurance Commissioner encourages homeowners' insurers to submit rate filings within sixty days of the date of Memorandum 2011-1R and via the System for Electronic Rate and Form Filing ("SERFF") to facilitate this process.

Filings shall be computed using standard actuarial procedures for rate filings of this type. The rate filings shall include at least five years of the insurer's own actuarial experience and expenses; and a return on equity calculation using all income and outflow for the line of business. The return on equity calculation shall also include investment income on current reserves and surplus.

Memorandum 2011-1R does not apply to hurricane rates which were developed using approved hurricane models and were previously approved by the Insurance Division.

Homeowners' insurers are hereby notified that if noncompliance with Memorandum 2011-1R occurs, the Insurance Commissioner may proceed against those insurers under §§ 431:2-203 and 431:14-117, HRS.

Thank you for your cooperation in this matter. Please address written correspondence to Colin Hayashida, Manager of the Rate and Policy Analysis Branch, at the Hawai'i Insurance Division, King Kalakaua Building, 335 Merchant Street, Room 213, Honolulu, HI 96813..