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February 28, 2012

Kevin Beagan  
Director, State Rating Bureau  
Division of Insurance  
1000 Washington St.  
Boston, MA 02118

Dear Kevin:

Thank you for coming to our Offices to discuss voluntary market homeowners insurance. In our letter of November 17, 2011, we expressed a concern that insurers were overcharging consumers and that these overcharges could potentially exceed half a billion dollars. We requested that you join us in asking the Commissioner to hold rate hearings for the private homeowners insurance market, so that we can together bring some transparency and fairness to the industry's methods of calculating rates. As we discussed, insurers are utilizing untested, and often discredited, hurricane models to estimate costs, as well as loading into the rate large costs for reinsurance. We appreciate your response and willingness to address this issue.

We were happy to arrange a meeting (on January 27<sup>th</sup>) between our technical staff, to discuss the data underlying our concerns. Please let us know if you have any further questions regarding our data or calculations.

In lieu of a rate hearing on the insurer filings, you suggested the Division hold a general, unbinding, review of the hurricane models that carriers use to develop rates. We would certainly be interested in such a proceeding. If such a review is conducted, it should be open, transparent, and thorough. The Division should strive to assure that hurricane model inputs, outputs, and calculations are reasonable, and that the models are calibrated for use in Massachusetts. We are happy to help you design the parameters for such a proposal to the Commissioner.

Even with a full and independent review of hurricane models, however, we still believe rate hearings are necessary with regard to the rates currently proposed by voluntary insurers. Consumers are being overcharged and a non-binding independent review of hurricane models will not, by itself, provide rate relief. Insurers have the



burden of demonstrating their use of the hurricane models results in rates that are not excessive, inadequate or unfairly discriminatory. As we described in our last letter, the insurers have not done so. Moreover, there are other components of the insurer rates, such as the inclusion of the cost for reinsurance, an expensive and unregulated product, that warrant scrutiny.

A rate hearing is necessary to ensure that current homeowners are paying fair and reasonable rates. If insurers cannot demonstrate rates are reasonable, their filings should be rejected, and insurers directed to lower their rate.

We urge you to join us in requesting a full rate hearing for the voluntary market carriers. This is the best way to obtain appropriate and prompt rate relief for Massachusetts consumers. Please let me know if you will join us in this request.

Very truly yours,

A handwritten signature in black ink, appearing to read "Glenn Kaplan", with a long horizontal flourish extending to the right.

Glenn Kaplan  
Assistant Attorney General  
Insurance & Financial Services Division