Notice an increase in regulatory activity?
The insurance marketplace has seen a steady increase in regulator examinations including the Market Conduct Annual Statement (MCAS) and data calls focused on ensuring that premiums charged to consumers are in conformity with filed and approved rates. Deloitte's State Rate Accuracy Assessment is a proactive, analytics tool used to help clients identify charged rates inconsistent with state filed and approved rates.

Area of focus
Regulatory examinations require insurers to demonstrate fair treatment of policyholders, prompt data readiness, and effective operational processes through compliance with filed and approved pricing. A focus on non-compliance to filed rates is driving an increase in regulatory activity. An inability to satisfactorily meet regulatory expectations may spur further regulator focus and attention, which exposes insurers to further scrutiny and associated costs.

What are the costs associated with misrated policies?

**Financial**: Variances between charged and filed rates may be small dollar amounts but, when aggregated across a book of business, they can be significant. *Single and multi-state examinations can cost companies hundreds of thousands, if not millions, of dollars* annually—realized through operational disruption and remediation costs, examination fees, and regulatory fines.

**Reputational**: Regulator findings are publicly-available information that *can reach millions through digital networks and media coverage* in addition to attracting consumer advocacy groups; a punishing blow to reputation that can inhibit trust in a company's organization and brand for a significant period of time, potentially costing the company millions.

**Operational and technological**: Rating errors may uncover a lack of controls and inadequate data governance, which can be *detrimental to operational integrity and draw regulatory scrutiny*. One of the top-noted Market Conduct issues in examinations is the failure to maintain suitable procedures for policy rating.

**Regulatory and legal**: Failure to demonstrate proactive and pre-emptive capabilities can result in disciplinary action from regulators, which can place the insurance company in a position of weakness before an error is even identified. Lack of conformity can also lead a company to be a *target for additional regulatory scrutiny*. 
State Rate Accuracy Assessment
Deloitte’s systemic and accelerated process of re-rating a book of business is tailored to the time period and product(s) selected by the company. Deloitte performs an assessment to determine an insurer’s data readiness and to identify inconsistencies between the insurer’s charged rates and state filed and approved rates. Observations and recommendations are provided so that identified discrepancies and mischarges can be corrected. The State Rate Accuracy Assessment is more than an analysis of an insurer’s rating process; it is an opportunity to detect exposures to significant risks, and mitigate those risks prior to regulatory scrutiny. In addition, the assessment can be completed under attorney-client privilege.

What’s included within Deloitte’s State Rate Accuracy Assessment?

1. Independently re-rate the policies to provide an objective support to the systemic rating outputs, independent of systems currently used.
2. Assimilate and assess possible inaccuracies within the production rating engine used for an active book of business, and measure data readiness.
3. Develop actionable recommendations for compliance risk management and summarize suggested enhancements to existing processes, controls, and system issues requiring remediation.
4. Report a summary of rate findings resulting from a comparison at the policy, coverage, and book of business levels, along with a summary of identified rating error drivers.
5. Analyze the auditable and methodological output to understand rating error drivers and assist in determining the appropriate rates in accordance with state approved filings.

Use case—Test market conduct readiness > Analyze rating integrity > Quantify the impact
A direct-to-consumer national insurer requested Deloitte analyze the rates they were charging to consumers against their state filed and approved rates. Through Deloitte’s proprietary methodology and simulated market conduct data call, the process uncovered issues in the insurer’s ability to produce data as requested, and discovered inaccuracies within the data produced. The inability to accurately produce requested data demonstrated a significant exposure to financial, reputational, operational, and legal risk. The rating analysis revealed instances of undercharging and overcharging of customers. The process allowed the company to enhance its data governance, retool its reporting process, correct rating factor errors, capture lost premium, and remediate overcharges prior to the involvement of the Department of Insurance. This proactive approach helped the company test its market conduct readiness while analyzing its rating integrity before examinations were conducted by regulators.

What’s included within Deloitte’s State Rate Accuracy Assessment?
In the use case above, the insurer looked to Deloitte’s deep insurance industry insight and technical compliance knowledge to execute the market conduct data call. As Deloitte assists organizations across the industry in validating data governance and compliance with rating, we are able to provide leading industry practices that create a view to help your organization create its own success stories. Identifying the most impactful areas for transformation, applying the right solution, and overcoming other factors that hinder effective adoption of technology is critical for insurers to solve their compliance challenges. With our experience across the regulatory and compliance ecosystem, Deloitte is well-positioned to help you address rating integrity and accuracy.

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