

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

In the Matter of the Proposed
Rules Regarding the Rates for
the Liquor Liability Assigned
Risk Plan

STATEMENT OF NEED
AND REASONABLENESS

In 1985, Minnesota Statutes, Chapter 340A was enacted. Section 409 subdivision 3 outlines the establishment of an assigned risk plan for liquor liability, designed to provide coverage to those who cannot purchase the required coverage from the standard insurance market. In 1986 Minnesota Rules Chapter 2783 were enacted pursuant to Minnesota Statutes 340A.409. These rules governed the operation of the liquor liability assigned risk plan and established the rates for coverage.

Minnesota Statutes, Chapter 340A.409, subdivision 3(g), states that the assigned risk premiums must be on an actuarially sound basis. In 1992, the Commissioner of Commerce requested an independent actuary to review the rates for the liquor liability assigned risk plan and to make comments regarding the soundness of the rates and the reserving procedures used by the assigned risk plan. The results of that actuarial audit were that the rates were inadequate and the requested to the board of directors that the rates be increased to level recommended by the actuary. These rules reflect that rate level.

Exhibit A constitutes a copy of the initial and final actuarial audit. All supporting data sources have been identified and accompany the audit.

The above information establishes that there is a need for the Liquor Liability Assigned Risk Plan to raise its rates to comply with State Statute 340A.409 Subd.3(g).

The rule is reasonable in that it meets the statutory requirement of actuarial sound rates. The data and results of the report considered the implication of the need and reasonableness of the rate increase. A summary of the actuarial audit conclusion contained in the report are summarized as follows.

The Legislative Commission to
Review Administrative Rules

MAR - 3 1993



1. The rate indication shown in the report shows a definite need for a large rate increase which is confirmed by a comparison to competitors rates (included in the report). An increase of 100% is less than the indicated, but is a significant move in the right direction.
2. The surcharge changes, which make up the major part of the rate increase, result in large increases for risks with 1, 2, and 3 claims. These risks have been priced well below competitors rates and appear to be the most underpriced based on the analysis of the experience plan. The modeling used in the report which uses actual experience of risks separated by claims history, and the Negative Binomial analysis all show strong indications that the surcharge plan should begin with 1 claim in the experience period.
3. A reasonably-priced option will continue to exist for those risks who have demonstrated a clean claims history, but for availability reasons, are unable to obtain coverage in the voluntary market.
4. A rate change of +100.3% will move the projected cash deficit from early 1994 to early 1995.

SMALL BUSINESS CONSIDERATION

There are two groups that may be affected by these rules, insurers and liquor vendors. Insurers are affected because they may be assessed for any shortages the Assigned Risk Plan has. Few if any of the insurers would be classified as small businesses. However, even if they were it would be inequitable to excuse them from participation or otherwise reduce their share of the burden and might impair the legality of the assessment mechanism. Also, since the assessment is based upon the insurers market share there is built into the Assigned Risk Plan an accommodation to smaller business.

The impact that the rule has on liquor vendors is a price increase to those covered by the Plan who we believe are small businesses. However, as to the price, this is based on the actuarially determined basis. 340A.409 requires that the rates be increased as indicated by the actuary. We do not believe that there would be an impact other than price.

We have attempted to notify every small business that is potentially impacted by this rule by mailing to all of the Assigned Risk Plan insureds a copy of the notice of attempt to adopt and the rule. The notice will also be sent to all interested parties from the Department of Commerce list as well as being published in the State Register.