



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

**Circular Letter No. 7 (1998)**  
**April 30, 1998**

**To: All Property/Casualty Insurers Authorized to Write Homeowners' Insurance and All Rate Service Organizations**

**Re: The Use of Computer Simulation Models in Homeowners' Insurance Rate Development**

The Department is engaged in an ongoing study of computer simulation models in response to some insurers' desire to incorporate this methodology into their rate filings. This is consistent with the findings of the 1997-1998 Temporary Panel on Homeowners' Insurance Coverage. In its February 1, 1998 report, the Panel recommended that the Department consider permitting computer simulation modeling to be used by insurers and rate service organizations as another acceptable actuarial technique for the development of appropriate rates and deductibles.

To date, the Department has not permitted the inclusion of computer simulation modeling results in the ratemaking process. Due to the proprietary nature of the model's components and assumptions, as well as the difficulty in determining the reasonableness of certain assumptions, the Department has encountered difficulty in reviewing all of a model's components and assumptions. Accordingly, the inclusion of the results of computer simulation modeling precludes the Department from determining whether an insurer's proposed rates meet the standards set forth in Article 23 of the New York State Insurance Law.

In order to assist the Department in its study, those insurers and rate service organizations which use computer simulation modeling as part of their homeowners insurance rate review and development process in this state, may provide, at their option, a comparison of the indicated rates and rate changes by form and territory. The comparison should include the rates and rate changes developed using the results of computer simulation modeling as well as those developed using more traditional ratemaking methodology.

The computer simulation modeling information will not be considered as part of the actual rate submission. However, any comparisons submitted by insurers and rate service organizations will help the Department gain perspective and familiarity with computer simulation modeling, and will assist us in making a future determination on the appropriateness of the use of this methodology in the ratemaking process for homeowners insurance rate filings. Upon request by the insurer, such information would be considered confidential to the extent permitted by Section 87(2) of the Freedom of Information Law.

Very truly yours,

Mark Presser  
Assistant Deputy Superintendent  
and Bureau Chief  
Property Bureau