

**Written Testimony of Roosevelt Mosley, FCAS, CSPA, MAAA
Managing Principal, Pinnacle Actuarial Resources, Inc.**

**The New York Senate
Standing Committee on Investigations and Government Operations;
Insurance; and Housing, Construction and Community Development**

Joint Public Hearing: Cost and Availability of Insurance for Residential Property

December 1, 2025

This testimony is submitted by Roosevelt Mosley, FCAS, CSPA, MAAA, managing principal of Pinnacle Actuarial Resources, Inc., at the request of the American Property Casualty Insurance Association (APCIA).

I. Background

The New York State Senate Standing Committee on Investigations and Government Operations, the Senate Standing Committee on Insurance, and the Senate Standing Committee on Housing, Construction, and Community Development (the “Committee”) have issued a Notice of Joint Public Hearing. The purpose of this hearing is to “analyze the property/casualty and liability insurance markets for residential properties in New York and consider legislative and policy changes to promote access and affordability for all property owners and the long-term stability of insurance markets.”

This testimony was prepared in response to the first request in the Committee’s August 5, 2025, Information and Document Requests to APCIA, which reads in relevant part:

1. Detail the extent to which property & casualty carriers underwriting residential property insurance policies cross-subsidize other states with more restrictive insurance laws/regulations and/or states with higher losses....
 - a. How do New Yorkers bear the risks – financially and otherwise – of households and businesses in other states, and what are the implications for the NYS market?

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b. What NYS laws, rules, or regulations govern, allow, or preclude this activity?

II. Discussion

Insurance companies do not cross-subsidize residential property insurance across states. New York residential property insurance customers pay premiums that reflect the expected costs specifically associated with insuring New York residential property risks and exposures. This is reflected in the following five key areas.

1. In practice - the typical rate level indication process used by insurance companies;
2. The CAS Ratemaking Statement of Principles;
3. The Actuarial Standards of Practice 53;
4. The New York rating laws; and
5. The New York Department of Financial Services' rigorous rate review process.

A. Overall Rate Level Indication Process

When insurance companies want to establish or change residential property insurance rates in New York, they must justify their proposed rates to the New York State Department of Financial Services (DFS). To justify changing rates, many insurance companies use a rate indication process to project premiums, losses, and expenses and to incorporate a reasonable provision for profit. Each of these elements reflects the experience of New York customers.

For premiums, the basis of the rate level indication is the historical premium charged to New York customers adjusted for rate changes that have occurred since the premiums were originally effective. These premiums reflect premiums paid by New York insureds and rate changes that have occurred in New York. They do not reflect premiums paid or rate changes that have occurred in other states.

For losses, again the basis of the rate level indication is the historical losses incurred by New York insureds. This applies to both non-catastrophe and catastrophe losses. Often, because of the variability and extreme nature of catastrophe losses, insurance companies remove actual catastrophe losses and replace them with a catastrophe provision which reflects longer term expected catastrophe losses. These catastrophe provisions are based either on models that project New York expected catastrophe losses or longer-term New York catastrophe averages. All of the losses included in the indication are for New York losses only.

To reflect expense, insurance companies use a combination of countrywide and state level expenses. There are some general expenses which cannot reasonably be allocated to the state level, such as the cost of maintaining the corporate headquarters building or salaries of some home office employees who support operations across all states. For these shared overhead expenses, the company typically

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calculates a countrywide ratio of expenses to premium, and this ratio is applied to New York premium to reflect New York's proportionate share of these general expenses.

It is important to distinguish between shared operational expenses and loss experience. Countrywide expense ratios reflect corporate overhead costs – such as information technology systems and legal services – that benefit operations in all states where the company operates. This is fundamentally different from cross-subsidization: New York rates are not increased to cover losses incurred in other states; rather, New York policyholders pay their proportionate share of the corporate infrastructure that supports New York policyholders.

There are also expenses that are specific to New York, such as agent commission rates, state-specific regulatory fees, and claim handling expenses that vary by jurisdiction. These expenses reflect the specific New York experience and will not include experience from other states.

Companies also reflect reinsurance expense, which help cover the cost of natural catastrophes. Reinsurance costs are typically established on a portfolio basis, so an insurance company will typically pay one reinsurance premium to cover all its exposures in every geographic region where it writes coverage. This reinsurance premium is then allocated to each state based on the expected catastrophe exposure in each state. Therefore, even if reinsurance costs for a company are higher due to higher catastrophe potential in other states, the costs allocated to New York will still be based on New York exposure. In other words, while the total reinsurance cost reflects the company's nationwide catastrophe portfolio, the share included in New York insurance rates reflects New York's own expected catastrophe risk, not the expected or incurred losses of other states.

Profit targets are typically set at a countrywide level and typically do not vary by state. This means that even if another state has higher losses and is not meeting its profit target, this will not impact the profit target used in New York rate indications.

Therefore, as can be seen in the typical indication process, losses from other states are not reflected in New York residential property insurance rates.

B. CAS Ratemaking Statement of Principles

The Statement of Principles Regarding Property and Casualty Ratemaking was promulgated by the CAS Board of Directors in 1988. The purpose of this statement is to “identify and describe principles applicable to the determination and review of property and casualty insurance rates.”¹

¹ See, <https://www.casact.org/sites/default/files/2021-05/Statement-Of-Principles-Ratemaking.pdf> (last viewed November 17, 2025).

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There are four principles stated in the document:

1. A rate is an estimate of the expected value of future costs.
2. A rate provides for all costs associated with the transfer of risk.
3. A rate provides for the costs associated with an individual risk transfer.
4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

Principle 3 and Principle 4 are particularly relevant to the question of cross-subsidization. Principle 3 explicitly states that rates must reflect costs associated with an individual risk transfer; in this context, the transfer of risk associated with individual New York residential property exposures. Principle 4 summarizes the requirements for an appropriate rate. The actuarially sound estimate of all future costs for New York residential property insurance risks must be based on New York residential property insurance experience. An actuary cannot reasonably justify that future New York costs be based on expected experience in other states. Therefore, the inclusion of out-of-state experience would violate these fundamental principles of ratemaking and could not be justified by an insurer in any rate filing to DFS.

C. Actuarial Standards of Practice

The Actuarial Standards Board promulgates Actuarial Standards of Practice (ASOP) which every actuary must adhere to. ASOP 53 is titled “Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention.”² The purpose of this standard is to “provide guidance to actuaries when performing actuarial services with respect to developing or reviewing future cost estimates for prospective property/casualty risk transfer and risk retention. This includes future cost estimates for insurance, reinsurance, self-insurance, loss portfolio transfers, or any other mechanisms for risk transfer or risk retention.” Therefore, this ASOP applies to establishing residential property insurance rates in New York.

Section 3.1 of ASOP 53 states:

The actuary should determine the elements that are appropriate to include in the future cost estimate. Such elements should relate to the applicable coverage and include loss and loss

² See <https://www.actuarialstandardsboard.org/asops/estimating-future-costs-prospective-propertycasualty-risk-transfer-risk-retention/> (last viewed November 17, 2025).

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adjustment expenses, operational and administrative expenses, the cost of reinsurance, and the cost of capital.

Coverage is defined in section 2.1 as “the terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation to pay benefits, expenses, or claims associated with contingent events.”

Based on sections 3.1 and 2.1, the appropriate elements to include in setting New York residential property insurance premiums will be elements related to the terms and conditions of the New York policies that create an obligation to pay claims for New York losses. Clearly, there is no obligation in a residential property policy issued in New York to pay claims associated with losses in other states. Therefore, it would be inappropriate, under ASOP 53, to include losses from other states in determining New York rates.

D. New York Rating Law

New York insurance law explicitly prohibits cross-subsidization and provides the DFS Superintendent with tools to prevent it.

Section 2303 of New York Law states:

Rates shall not be excessive, inadequate, unfairly discriminatory, destructive of competition or detrimental to the solvency of insurers. In determining whether rates comply with the foregoing standards, the superintendent shall include all income earned by such insurer and any insurer controlling or controlled by such insurer or under common control by or with such insurer on all its investments of any kind and wherever located. The superintendent shall further determine whether any component of such rates represent an effort on the part of the insurer to recover losses incurred in another state due to any referendum, law or regulation which requires a general reduction in rates for the kinds of insurance described in section two thousand three hundred two of this article. Such a finding shall be deemed unfairly discriminatory for the purposes of this article. (Emphasis added.)

This provision directly addresses the concern raised in the Committee’s first request. New York law requires the DFS Superintendent to determine whether any component of rates represents an effort to recover losses incurred in another state due to laws or regulations that reduce rates in that other state. If such an effort is found, it is deemed unfairly discriminatory and therefore not permitted under New York law. Every rate filing submitted to DFS is subject to this review, creating a regulatory safeguard against cross-subsidization.

E. New York Department of Financial Services

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Beyond the actuarial practices and professional standards described above, New York has a rigorous rate regulatory system that provides additional safeguards against cross-subsidization. The DFS reviews every rate filing for residential property insurance pursuant to Section 2304 of the Insurance Law. The review process includes examination of loss experience, expense analysis, catastrophe load verification, and profit provision scrutiny. The DFS also ensures compliance with Section 2303 by examining whether rates represent an effort to recover losses incurred in other states. This regulatory process operates as a check on insurers' actuarial work and provides the public with assurance that approved rates are justified by New York-specific data.

III. Conclusion

As seen in the foregoing, cross-subsidization is prohibited by New York law, CAS Ratemaking Statement of Principles and ASOP 53 .

While New York residential property insurance customers have experienced rate increases in recent years – driven by factors including increased catastrophe exposure, inflation in construction costs, litigation system abuse and rising reinsurance costs – those rate increases reflect New York-specific cost drivers, not losses incurred in other states.

Insurance companies operate under professional actuarial standards, are subject to rigorous regulatory review by DFS, and face legal prohibitions against cross-subsidization. This multi-layered framework provides assurance that New York customers pay rates commensurate with New York risks.