Comments of the Center for Economic Justice to the
NAIC Blanks Working Group and Casualty Actuarial and Statistical Task Force

Response to Comments on Blanks Proposal 2021-11BWG

July 12, 2021

CEJ offers the following responses to comments submitted on Blanks Proposal 2021-11BWG. The proposal would add earned exposure and written exposure data elements for the personal auto and homeowners lines of business to the annual and quarterly financial statements. For the annual statement, the reporting would be by-state in new exhibits that pull written premium and earned premium for the relevant lines of business from the Exhibit of Premiums and Losses (State Page). For the quarterly statements, earned exposures and written exposures would be added to Part 1 and Part 2, respectively.

We have already amended our proposal to remove the private flood line of business.

The benefits of the additions are significant, as set out in the proposal. Most important, with the additions, regulators and the public would be able to identify trends in exposures and average premium for the largest personal lines of property casualty insurance in a time frame to make this information useful.

CEJ has offered to work with interested parties to strengthen the proposal and address any shortcomings. No interested party has reached out to CEJ. Further, only one interested party has offered "suggestions" for improvements, but those "suggestions" were non-specific and were criticisms of the proposal incorrectly framed as "suggestions."

CEJ organizes our response to the commenters by category of comment.

1. **<u>"Misleading data for regulators and the public."</u>**

The most common objection among the commenters is that the average written and earned premiums calculated from the proposed financial statement additions would be "misleading data for regulators and the public." A representative comment comes from the interested parties:

> "If ASL 4 Homeowners Exposures is all inclusive, the proposal to count written and earned 'residences' would include an array of policies ranging from rental policies to mansions, resulting in an average premium that has no real value to users. If ASL 4 Exposure does not include condo and/or rental policies, then the average premium would be misleadingly inflated."

> "For ASL 19.2 auto policies, if Premiums include, but Exposures exclude, miscellaneous vehicles, such as golf carts, private passenger trailers, and all-terrain vehicles, the average premium would be inflated. Furthermore, how misleading this broadly applied average may be for any individual company depends on the size and mix of their business reported under each ASL impacted by the proposal. This information, taken out of context, could be negatively construed and lead to detrimental results for companies."

The claim of "misleading" is without merit for several reasons.

First, commenters point to the two statistical reports as providing information that is not misleading. Yet, the average premium that could be calculated from the proposed additions are the same average premium calculations found in the two statistical reports. It is unclear how the same average premium calculation can be simultaneously misleading and relevant information

The proposed additions will permit the calculation of average homeowners premium by dividing premium by exposure. This is the same calculation found in the total column of Table 4 of that report, including a report by state and countrywide aggregate.[1] While the report also provides average premium by homeowners policy form, the fact that an aggregate average premium is calculated and presented demonstrates that regulators who publish the report and industry who have never objected to this metric do not find aggregate average premium "misleading."

The same response applies to the "misleading" claim for personal auto. The auto database report provides several average premium calculations. One is "average expenditure" which is the sum of liability, collision and comprehensive premium divided by liability written exposures. A second is combined average premium which is the sum of liability premium divided by liability written exposures, collision premium divided by collision written exposures and comprehensive premium divided by comprehensive written exposures.[2]

---

[1] https://content.naic.org/sites/default/files/publication-hmr-zu-homeowners-report.pdf
[2] https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf at page 3.

The proposed addition permits the exact same calculation of average expenditure as found in the auto database and a very similar calculation to the combined average premium calculation.

Second, commenters seem to be complaining about the basic concept of an average. Interested parties complain that any average premium calculation will be misleading because it combines different types of policies and different vehicles – "policies ranging from rental policies to mansions, resulting in an average premium that has no real value to users."

By this logic, every average premium calculation found in the two statistical reports are "misleading." For example, even within the average premium calculation by policy form in the homeowners statistical report, that average premium averages the premiums from small homes to mansions. The average premium calculations in the auto database average premiums for old and new vehicles for inexpensive vehicles and expensive vehicles and for different liability limits.

The nature of the average statistic is that it is a description of different outcomes. Consider some of the most highly-used statistics – average home prices, average family income or the unemployment rate. Each is a summary statistic of widely varying situations – the average of home prices for small, medium, large and massive homes in different locations, the average of income for different professions and family composition and the average of unemployment across different industries and markets. ***Yet, these statistics are recognized as useful, despite these limitations, predominantly because they permit a timely analysis of changes over time. That is precisely what the proposed additions to the annual and quarterly statement will permit.***

Third, while interested parties argue that the proposed additions will produce "misleading" average premium calculations, they ignore the fact that the current statistical reports produce misleading information. The current statistical reports are misleading because they present average premium values that are two to three years old. In March 2021, the NAIC issued a press release and released the auto database report with average premium calculations for 2018. Some states – with low average premiums – issued press releases citing the report. We suggest it is far more misleading to release average premium data for 2018 in March 2021 than any of the concerns raised by interested parties with the blanks proposal. When someone reads that press release or references the average premium calculation in the two statistical reports, they will be misled into thinking that the data are somehow relevant and timely.

2. <u>"Provide Competitors with Proprietary Information"</u>

Interested parties offer the claim of "proprietary information" without evidence or explanation. Presumably, the claim of "proprietary information" is offered to suggest that if written and earned exposures were reported, reporting companies would suffer competitive harm – that, somehow, competitors could use the written and earned exposure data – by state on an annual basis and countrywide on a quarterly basis – to learn the competitor's strategy.

Interested parties provide no evidence or even an explanation for this claim because it is an absurd claim. First, we know that the insurer achieving the fastest growth over the last decade – Progressive – provides the number of policies in force along with written and earned premium on a monthly basis – broken out not just for personal auto but by personal auto sold through agency versus direct channels.[3] The fact that the fastest growing personal auto insurer – the one with the most to lose by providing "proprietary" information – voluntarily provides exposure counts on a monthly basis explodes the interested parties' "proprietary" argument,

Second, it is unclear why or how any competitor would or could use this exposure information to gain some competitive advantage. Putting aside the fact that the quarterly exposure counts are countrywide and the annual counts are by state – aggregates too large to gain any meaningful insight for competitive purposes – insurers have access to many other data sources to gain far more timely and granular competitive insight. Insurers have real-time access to competitors' rate filings as well as competitor quoting information, among other sources.

Third, the financial statements contain public information far more relevant and useful for competitors to ascertain another insurers' business strategy. Consider the detailed reporting of loss reserves and changes in loss reserves by line of business. Using this information, a competitor could assess the loss reserving strategy of other insurers. Or consider the detailed reporting of investments – literally every stock and bond bought, held and sold. A competitor could use this information to assess the investment strategy of other insurers. Or consider the detailed reporting of every reinsurance agreements. A competitor could assess other insurers' use of affiliated and unaffiliated reinsurance strategies. In contrast, the highly-aggregated exposure data cannot possibly provide the same types of insights.

---

[3] https://ml.globenewswire.com/Resource/Download/5cef1e8f-b788-4e83-9daa-2f1cf5cd9d33

3. **<u>"Costs outweigh benefits"</u>**

Interested parties argue that benefits are lacking for 2021-11BWG and costs are significant. Again, interested parties' claims are without evidence or support. Louisiana, for example, claims that "Expense to companies outweighs benefits," "Require[s] companies to build a new system to capture and report exposure details," and "Unless validated/audited will be of limited value."

It is unclear why the costs of providing this information will be material to insurers and consumers. The new data elements – written exposures and earned exposures – are routinely captured in the course of insurers' business, routinely used in insurers' personal auto and residential property insurance rate filings and reported by many insurers in pay-for public reports – Fast Track reports:

> The Fast Track Monitoring System was developed to provide insurance professionals with a sampling of significant data by line of insurance at the earliest possible date. Participation in the Fast Track Monitoring System for Private Passenger Automobile involves the reporting of quarterly loss ratio data and claim cost and frequency data on an accelerated basis, so that it is received by the statistical agent within 45 days of the end of each quarter. The statistical agents collecting Fast Track data are Independent Statistical Service, Inc. (ISS), National Independent Statistical Service (NISS), and ISO Data, Inc.

For personal auto insurance, fast track data included earned exposures – "earned car years" and "earned house years" – for personal auto and homeowners, respectively.

Given the widespread use by insurers of these exposure metrics, it is unclear why "new systems to capture" the data would be required. While the data elements may need to be pulled from different data pools within an insurers' overall information system, that is no different from other information reported in the annual and quarterly financial statements.

Further, the relevant cost metric for evaluation is the marginal cost of reporting additional data in the financial statements. We suggest that marginal cost is low in absolute terms and lower in relative terms to the many other changes and additions to the annual and quarterly statements that occur each year.

Let's put the cost in perspective relative to premiums. According to data published by the NAIC,[4] in 2020, there was $110 billion in homeowners (line 4) written premium and $249 billion in personal auto (lines 19.1, 19.2 and 21.1) written premium. Now let's assume a preposterously large marginal cost for insurers of, say, $10 million to report the new data elements. That would represent less than 3/1000ths of a percent of premium – or less than 3

[4] https://content.naic.org/sites/default/files/web_market_share_property_casualty.pdf

cents for a policy with a $1,000 premium. Of course, the marginal cost of second and later years' reporting would be far less than the initial reporting. So the cost per premium dollar would be much lower when considered over a multiple year period.

The benefits are significant and clearly outweigh any costs to insurers. First, the benefits to the proposal additions include more timely data that is clearly of interest to regulators and the public. While the two statistical reports have much useful information beyond average premium calculations, it is unclear what purpose is served by publishing average premium in these reports since the data are so old and not relevant for current analysis.

Imagine if insurers were to make rate filings in March 2021 with data only through year-end 2018. No regulator would accept such stale data. Or imagine that any of the other data in the annual statement were that stale – 2018 investments instead of 2020 investments reported in March 2021. The relevance of timely data is no less true for exposure counts and average premium.

Second, the most significant benefit for both financial and market analysis is the ability to track trends in exposures and average premium on a timely, quarterly basis. As with most indices or major averages, it is the analysis of changes over time that provide the most useful information. The proposed additions will create the opportunity for this type of timely analysis of changes over time.

Third, the proposal is, by far, the most efficient method of capturing this important information. Some commenters suggested that regulators have other means of collecting these data – from rate filings or special data calls. There is no existing, timely data collection of these data elements. Rate filings are not a comprehensive or uniform or timely source of the data since insurers do not routinely make complete rate filings on a quarterly basis or include the relevant information in every rate filing. Special data calls are far more expensive for insurers than routine ongoing reporting and are far less reliable for data quality. By adding the data elements to existing, routine reporting, the data will reported using the most efficient and common data reporting tools and provide comprehensive and uniform reporting.

Fourth, regulators, insurers and the public benefit with reporting of and publishing of current experience. As noted above, we believe it is far misleading to issue average premium data in March 2021 – which will likely be misinterpreted as current information – than any alleged problems with "averages."

Fifth, the proposal provides new data elements that will make other information in the annual and quarterly statements more useful. For example, the availability of exposure counts offers new and improved opportunities to analyze changes in written and earned premiums.

Sixth, the proposal provides relevant information to interested stakeholders, including academics, policy-makers and other third parties who routinely publish "average premium" information. A major benefit of the proposal is the availability of relevant and timely public information from a respected source. Right now, there are a variety of websites that publish "average premium" values based on a variety of methodologies – none of which are as reliable as those available with the proposed financial statement additions.

In summary, the benefits of the proposed addition far outweigh the costs to insurers.

4. **"Improve the timeliness of the current statistical reports instead."**

Some commenters suggested, as alternatives to the proposed financial statement additions, speeding up the production of the current statistical reports or issuing special data calls or culling information from existing sources. ***None of these suggested alternatives are a viable substitute for the proposed financial statement additions.***

First, the proposal is not intended to replace the existing statistical reports because those reports have far more information than simply average premium. Most importantly, the statistical reports include claims information – and that is the source of the lengthy delay between the experience period and the publication of the reports. Simply stated, claims take time to develop, so matching claims to exposures requires time for the claims to be reported and settled.

In addition, the nature of the data collection for the statistical reports requires a far lengthier and complicated process than the proposed financial statement additions. To produce the statistical reports, the NAIC must gather data from several statistical agents and several individual states and then combine and audit those data. In contrast, the proposed financial statement additions involve direct reporting from insurers to the NAIC through an existing reporting document and, consequently, will always be much faster than the reporting and compilation associated with the statistical reports.

Second, as discussed above, there are no other timely sources of the data in a comprehensive and uniform manner. Rate filings cannot generate comprehensive and uniform data. Fast Track data is reported by only a portion of the industry and is not readily available to the public.

Third, as discussed above, special data calls are far more inefficient, costly and less reliable than routine financial statement reporting and don't permit the critical use of timely analyzing trends in average premium over time. Insurers have long complained about the cost of special data calls, so when insurers argue against routine reporting of data through existing reporting instruments, we can be certain that the complaint is not about cost.

5. "Clearer definitions of exposure are needed."

The Academy comments include the following as suggestions that would "*improve* the proposal."

> Include a complete and clear definition of exposure and calculation for each line proposed, particularly as respects the crossing (or overlap) of calendar time periods. Clear specifications ensure greater consistency across companies reporting; and
>
> Definitions that account or minimize distortions from mix would be recommended.

While we welcome the opportunity to improve the proposal, we cannot identify the problems alleged by the Academy. Of note is the fact that the Academy has not offered the proposed guidance it alleges that insurers seek. Comments for blanks proposals routinely offer the specific wording in the comments to implement the concepts they propose. But, not for this proposal.

The Academy argues that additional, clearer definitions are needed to address the fact that the homeowners lines contains different policy forms. Yet, it is unclear how any reporting company could misinterpret the proposed instruction which refer to either an insured vehicle or an insured property.

The proposed definitions are:

> *A Written Exposure for Annual Statement Line 4 is defined as a single residential property for which coverage was written at any time during the calendar reporting period and remained in force through the end of the calendar reporting year. If the coverage was written and cancelled within the calendar reporting year, the written exposure is the fraction of the year the coverage was in force.*
>
> *A Written exposure for Annual Statement Lines 19.1, 19.2 and 21.1 is defined as single motor vehicle for which coverage was written at any time during the calendar reporting year and remained in force through the end of the calendar reporting year. If the coverage was written and cancelled within the calendar reporting year, the written exposure is the fraction of the year the coverage was in force.*
>
> *An Earned Exposure for Annual Statement Line 4 is defined as the fraction of the calendar reporting year for which a single residential property had coverage in force.*
>
> *An Earned Exposure for Annual Statement Lines 19.1, 19.2 and 21.2 is defined as the fraction of the calendar reporting year for which a single motor vehicle had coverage in force.*

Given these definitions, the Academy "suggestions" make no sense. First, it is crystal clear how exposures should be calculated for each line of business – the definitions are industry standard for two of the most common metrics in insurance. The Academy's complaint that homeowners include a variety of homeowners policy forms has no relevance for defining an exposure. Given the proposed instructions, it is unclear how an insurer could misinterpret an exposure for a renter's policy form or a condo policy form. Similarly, it is unclear how an insurer could misinterpret an exposure for a motorcycle or a mobile home written on a personal auto policy form.

Similarly, the complaint / "suggestion" regarding "crossing (or overlap) of calendar time periods" is clearly addressed in the definitions. There are few concepts in property casualty insurance more widely used than written exposure and earned exposure. The difference between the two measures of exposure relates specifically to what portion of the exposure is counted within a calendar year. The proposed definitions directly address – with industry standards – how to measure exposures that may overlap reporting periods.

6. **"The requested information is not solvency related and shouldn't be in the AS and QS."**

This comment from Louisiana is deeply flawed in two major respects – the data do have relevance for financial oversight and the financial statements include much information that is not "solvency-related."

We strongly believe that the addition of exposure elements to the annual and quarterly financial statements will assist financial analysts, as well as market analysts. The addition of exposure data permits financial analysts to better understand and assess changes in premium from one reporting period to the next. Change in quarterly premium written and earned can be better understood with related exposure counts – is the insurer's premium change a result of changes in average premium per exposure or simply changes in exposure?

Further, the financial statements include a variety of information not related to insurer solvency, including, for example, the new private flood supplement, the credit insurance experience exhibit, the bail bond supplement and Schedule T Exhibit of Premiums Written. While not solvency related, these parts of annual statement reporting provide necessary information for regulators to carry out statutory responsibilities. These non-solvency exhibits and supplements in the financial statements because it is the most efficient and effective method of collecting comprehensive and uniform data from insurers to meet a specific regulatory purpose. That same rationale applies to the proposed 2021-11BWG.

Thank you for your consideration. We urge both CASTF and Blanks to support proposal 2021-11BWG.