Comments of the Center for Economic Justice to the

NAIC Property Casualty (C) Committee

Regarding Auto Availability Report, Unfair Discrimination and COVID19 Response

June 8, 2020

The Center for Economic Justice (CEJ) offers the following comments to the Property Casualty Committee.

Private Passenger Auto Insurance Study

The report before you is the denouement of NAIC activities that began in 2012 at the urging of the Consumer Federation of America (CFA) to examine auto insurance issues affecting low- and moderate-income consumers. To be clear, the NAIC has taken no action to address the plight of low-and moderate income auto insurance consumers nor taken any action to address unintentional or proxy discrimination against protected classes. The recent protests and outrage over systemic bias and racism are just the latest spotlight on the NAIC's inaction to address proxy discrimination. The auto insurance report before you is a sad commentary on the collective ability of insurance regulators to protect consumers from such systemic bias.

CEJ and CFA have written on several occasions why this report is not useful or an accurate picture of availability or affordability or redlining. Some of the reasons include data handpicked by industry, only policies issued and nothing on prices quoted and nothing on non-standard market share. This is all of top of the data being extremely stale – a report based on 2013 to 2017 data being considered for adoption in June 2020. It is unclear how regulators or the public could use these data to assess availability or affordability. The report is a triumph for industry who have been able to publish the report they wanted under the auspices of the NAIC.

Auto Insurance Study Illustrates How Regulators Were Unprepared for COVID-19

The study illustrates how regulators were unprepared to auto insurance issues in the face of the pandemic. The rapidly changing risk exposures for auto insurers starting in mid-March demands timely data collection by regulators to assess what's happening in the market. CFA and CEJ pointed this out to regulators in our letters of March 18, 2020,[1] March 30, 2020,[2] and May 7, 2020.[3] Yet, regulators do not have the data collection infrastructure in place to timely assess such market changes. And regulators through the NAIC have taken no action to start collecting such data. Despite the rate regulation requirements in most states for personal auto insurance, you've essentially deregulated auto insurance by your inaction. The insurers' response to the radical drop in risk exposure and rupture of assumptions from recent past and in then-current rate filings goes without review by regulators. As does the method of providing -- or decision not to provide -- timely relief to policyholders whose premiums became excessive overnight.

The presentation of this report to you for adoption should be the catalyst for action to modernize market analysis and market regulation. We offer two recommendations to improve regulators' data collection for market regulation.

Recommendation 1 is to modify the state page of the annual and quarterly financial statements to add two data columns or fields – written exposures and earned exposures – for personal auto and homenowners lines of business. This simple change will enable regulators to monitor changes in average auto premium in a far-timelier manner than the current approach through the Auto Insurance Database. The current database, published in January 2020, provides average auto insurance premium data through 2017 – over two years after the end of the reporting period. By adding written and earned exposures to the state pages, regulators can get average premium per vehicle within 3 months after the end of the experience period. And by adding these two columns to the quarterly financial statement, regulators can get changes each quarter in average annual premium at least on a national basis. Attached is a detailed proposal for the committee to present to the Blanks Task Force. It should be noted that this additional reporting will not impose a significant burden on insurers since insurers monitor written and earned exposures and have such data readily available.

The benefits of timelier average premium data are considerable. Timely average premium data would permit financial analysts to utilize changes in average premium as part of financial analysis. Similarly, the more-timely average premium data would become a valuable tool for market regulation analysts, including, but not limited to, an added data point for use the Market Conduct Annual Statement. Last, but not least, this proposal would allow the NAIC to calculate and publish average annual premium data for residential property and personal auto insurance by state in a time frame to both make the data meaningful for describing market conditions and to inform individual state regulators and policymakers of actual changes in personal lines average premiums – as opposed to expected changes gleaned from rate filings.

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[1] https://consumerfed.org/wp-content/uploads/2020/03/COVID-19-Auto-Premium-Relief-Letter.pdf
[2] https://consumerfed.org/wp-content/uploads/2020/03/COVID-19-Auto-Premium-Relief-Letter-3-30-20.pdf
[3] https://consumerfed.org/wp-content/uploads/2020/05/Auto-Insurance-Refunds-COVID-19-Update-Report-5-7-20.pdf

Recommendation 2 is to change the reporting frequency of the Market Conduct Annual Statement from annual to quarterly. MCAS data – the foundation for market monitoring and market analysis – is not available to regulators until about 20 months after the beginning of the experience year. In addition to an inability to use the data to respond quickly to market issues, annual reporting masks changes that occur within the experience reporting period. Again, quarterly reporting should not pose a significant burden on insurers since their systems are already programmed to provide these data on an annual basis.

Both of these recommendations go the heart of a regulatory data collection infrastructure that would enable regulators to timely monitor markets and better respond to market issues – small and large.

Proposal to Add Exposure Data Elements to State Pages of NAIC Financial Statements

Describe Proposal

Add two columns to the property casualty annual statement state page – "Direct Exposures Written" and "Direct Exposures Earned" – to be reported, initially, only for lines 2.5 (Private Flood) 4 (Homeowners), 19.1 (PPA No Fault), 19.2 (PPA Liability) and 21.1 (PPA Physical Damage) Direct Exposures Earned would be placed between current columns 1 (Direct Premiums Written) and 2 (Direct Premiums Earned). Direct Exposures Earned would be placed between current columns 2 (Direct Premiums Earned) and 3 (Dividends Paid).

Below is an illustrative mock-up. .

	Gross Premiums, Including Policy and Membership Fees, Less Return Premiums and Premiums on Policies not Taken			
Line of Business	1 Direct Premiums Written	2 Direct Exposures Written	3 Direct Premiums Earned	4 Direct Exposures Earned
1. Fire		XXXXXXXX		XXXXXXXX
2.1 Allied Lines		XXXXXXXX		XXXXXXXX
. . .		XXXXXXXX		XXXXXXXX
2.5 Private Flood				
. . .		XXXXXXXX		XXXXXXXX
4. Homeowners Multi-Peril				
. . .		XXXXXXXX		XXXXXXXX
19.1 PPA No Fault				
19.2 PPA Liability				
19.3 Comm Auto No Fault		XXXXXXXX		XXXXXXXX
19.4 Comm Auto Liability		XXXXXXXX		XXXXXXXX
21.1 PPA Physical Damage				
. . .		XXXXXXXX		XXXXXXXX

Instructions

A Written Exposure for lines 2.5 and 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 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 lines 2.5 and 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 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.

Examples. Assume a homeowners policy is written on July 1 during the reporting year and remains in force through the end of the reporting year. This activity would be reported as one written exposure and 0.5 earned exposure.

Assume a private passenger policy with No-Fault, Liability and Physical Damage coverages was written on April 1 and cancelled by the insured on July 1. This activity would be reported as 0.25 written and 0.25 earned exposures.

Purpose and Benefits

The average written and average earned premium per exposure is an important metric for a variety of regulatory and public policy purposes. The NAIC annually produces reports of average personal auto and homeowners premiums, but the data in these reports are old and stale for timely assessment of absolute average premium and changes in average premium over time. Both reports are typically produced 24 months after the end of the experience period – average auto or homeowners premiums for 2017 are published at the beginning of 2020. While there are valid reasons for the length of time needed to produce these reports – primarily because these reports contain information beyond average premium – the average premium numbers lose significant relevance because of their age.

This Blanks proposal would allow the calculation of average written and average earned premium for residential property and personal auto coverages in a far more timely fashion – with three to four months following the reporting year instead of 24 months. The benefits of timelier average premium data are considerable. Timely average premium data would permit financial analysts to utilize changes in average premium as part of financial analysis. Similarly, the more-timely average premium data would become a valuable tool for market regulation analysts, including, but not limited to, an added data point for use the Market Conduct Annual Statement. Last, but not least, this proposal would allow the NAIC to calculate and publish average annual premium data for residential property and personal auto insurance by state in a time frame to both make the data meaningful for describing market conditions and to inform individual state regulators and policymakers of actual changes in personal lines average premiums – as opposed to expected changes gleaned from rate filings.