



Allstate
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Sent via electronic mail

September 20, 2010

Director Michael McRaith
c/o National Association of Insurance Commissioners
2301 McGree Street Suite 800
Kansas City, MO 64108-2662

Attention: Ms. Pam Simpson

Dear Director McRaith:

On behalf of Allstate Insurance Company (Allstate), we appreciate the opportunity to comment on the draft NAIC Property and Casualty Committee (C) Committee's proposed "Risk Classification Data Call," and provide you with additional information regarding Allstate's use of insurance scoring and why we believe it is important for both consumers and insurers to retain this rating and underwriting tool. The data call is scheduled for a hearing in Kansas City on September 30, 2010.

Background

The use of credit-based insurance scoring is the most significant advancement in cost-based pricing in the past 30 years. Using insurance scoring is consistent with cost-based pricing and results in premiums that more accurately reflect risk of loss for each consumer. We believe that customers who are less likely to incur losses should be rewarded with lower premiums. Most consumers pay *less* for their insurance coverage than they otherwise would because of insurance scoring.

We have seen little impact of current economic conditions on the overall insurance scores of our customers. What we and others have seen is that overall insurance scores are remaining roughly the same – some consumers are seeing their scores improve, others are seeing their scores worsen, which is normal. We have not seen evidence that overall insurance scores are getting worse.

A study done by LexisNexis noted that credit-based insurance scores continue to remain stable over time. Insurance scores are stable overall because the current credit crisis is affecting consumer scores both positively and negatively. For instance, delinquencies may be more frequent, but balances and overall debt burden are decreasing as many consumers more carefully manage their finances.

Trans Union has also noted that insurance scores were stable over time, as opposed to credit risk scores which are more volatile and more affected by external economic factors. It is important to remember that while insurance companies use information from credit reports, they do not use credit scores that banks and other creditors use, which we understand are currently more volatile.

NAIC Proposed Data Call

Before providing specific comments on the data call itself, we must question whether the data call as currently drafted should be issued. The proposed data call cites as support various charges of the NAIC's Property and Casualty Insurance Committee --- including the following -- "evaluate how insurers use credit-based insurance score." We would suggest that since this important rating and underwriting tool has been used to varying degrees over the last twenty years that the state regulatory process has in essence validated the efficacy and legitimacy of insurance scoring. Every regulator has statutory authority to disapprove a rating factor that is not actuarially sound or otherwise supported by loss experience or other data. No thoughtful commentator questions the relationship between insurance scores and insurance losses. As the Federal Trade Commission (FTC) has found,

Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer.

As to one of the other charges - with regard to how current economic conditions have affected policyholders premium related to credit-based insurance scores - we would respectfully suggest that some states, such as Texas and New Jersey, have already undertaken that effort through a survey of insurers writing business in that state. Specifically, New Jersey requested that insurers provide an analysis of the potential impact of economic changes upon insurance scores, including, for example, the differences in aggregate score distributions over the past 36 months.

We can also look to the public policy regarding insurance scores as it has been set forth by state legislatures. All but a few states have recognized that insurance scoring provides value to consumers in either tacitly or expressly allowing insurance companies to use credit information in the rating and underwriting of insurance.

Turning to the proposed data call itself, we respectfully submit that the information requested in the data tables would provide the regulators with little new or meaningful data. At a very practical level, the proposed data call does not permit the regulator to effectively compare the information and data from one company to those of another.

Moreover, the information requested would represent a significant undertaking, the extent of which would be affected by the number of states which participate in the data call. Some of the information requested could be compiled using computer based data retrievals; yet, much of the information would require a manual review of rating plans manuals and underwriting guidelines.

Though not specifically mentioned, it appears the data call may facilitate a comparison as to how the distribution of rating factors for insurance scoring compares to other factors for other rating variables. It is difficult to see where this would lead if the range of insurance scoring factors is larger than the range of some other rating factors; that may be simply a reflection of the underlying explanatory power.

With regard to the five data tables, given that rating factors are updated from time to time, it would be important that the data call includes a common date on which to report how risk classification factors were used and the given factors in use at that time. The data call refers to the company's complete current rating plan, but what is current today could change while the response is being assembled. We would not want to continually update the response for certain states and companies during the process of preparing this data. It would be more practical to ask for information as to how risk classification plans were being used as to a common date, such as August 1, 2010.

Table III asks for information regarding the highest or lowest factors, all other factors remaining equal. It may be possible that insurers could make different assumptions about "the other things being equal" and arrive at different answers, especially if an insurer's rating plan contains rating factors that are interrelated.

For example, assume an insurer's rating plan uses gender and age, working together so that there are 6 different factors.

	Gender	
	Male	Female
Age		
16-21	2.80	2.25
22-25	1.50	1.35
26+	1.00	1.00

If by assuming that “other things being equal” means that everyone is 45, then the range in factors is (1.00/1.00) or 1.00, but if one assumes that everyone is 18 as “all other things being equal,” then the range would be (2.80/2.25) or 1.24. For many companies rating factor interactions may also be much more complex than a simple two-way interaction.

The reporting of this information is further complicated by the fact that rating factors may be different for every coverage, and the proposed data call does not state if or how information at the coverage level is to be aggregated.

Another issue with Table III is the process for determining the median values (the median value would be associated with the middle number in a series of numbers). The question is what is the series of numbers. Assume a rating variable, like territory, has 5 values and the rating factors are 0.77, 0.82, 0.86, 0.95 and 1.00. Of these 5 values, 0.86 would be the middle one. Let’s also say that 400 customers are in the lowest rated territory, 250 in the second lowest, 200 in the third lowest, 400 in the fourth lowest and 901 customers in the highest rated territory. If you created a series of the factors for all of the customers, there would be 2151 numbers and the factor associated with the middle customer, number 1076, would be a factor of 0.95.

Clarifying this will be even more important for factors such as ownership of a home, where there are only two possible results. If one were to determine the median value based upon the distribution of insureds, the median value would be assigned to the factor of the group that had the most insureds. This could lead to misleading results, especially as Tables IV and V call for percentage of customers who fall a certain percentage above or below the median or the average. In addition, the data call should be clarified to specify if the average is to be calculated as a straight average of all rating factors or a weighted average based on the distribution policyholders.

Question 16 asks for insurers to provide “decline-to-quote” ratios; however there is no guidance as to how that measure would be defined. Given differences in quoting processes from company to company, changes in these processes over time and limitations regarding how much information relative to quotes is captured and stored, it may be difficult to come up with a definition that all companies will be able to report on.

Question 17 needs to define what is meant by “renewal business” for clarity and for consistency. If a state for example requires credit information to be run every three years, would the renewal section only include those renewal policies where new credit information was ordered to determine a score, or would all renewals be included and the consumer’s particular score from that particular renewal being included in the report, even if based upon a previous credit order. Each method provides different information, as the first interpretation would focus on those credit reports being ordered during a particular year, but the second interpretation may give more insight into the impact on particular consumers as those not having their reports reordered will not experience a change in score at that particular renewal.

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A second question relates to how to report information in those cases where credit information is ordered but only applied if the score improves. In these cases, should insurers report the score that was returned even if it was not applied to the policy, or only report the score actually being used?

Suggested Data Call

We again recommend that the NAIC consider the previous survey issued by New Jersey Department of Banking and Insurance that gathered information regarding the impact of the current economic conditions upon insurance scores. Further, Questions 20 through 22 of the data call seem designed to ascertain if the majority of consumers benefit from the use of insurance scoring. These three questions appear to be similar to those included in an annual report required in Arkansas. In the Arkansas report, however, there are detailed instructions to make it clear how to consider new policies and renewal policies, and how to determine whether a customer received an increase or decrease due to the use of insurance scoring. We would suggest that the NAIC clarify the proffered questions in an effort to obtain consistent results. To the extent information is requested that is consistent with the instructions of the Arkansas report, it may make it easier for companies to prepare this information.

We ask for clarification of the process that the Property and Casualty Committee will use regardless of the specifics of the data call. Will the final data call be vetted through a vote of the C Committee, Executive Committee and then in a Plenary Session? Lastly, since the terms of the final data call are unclear, it is difficult to comment on the confidential nature of the information being sought. We would respectfully request, however, that the NAIC be mindful that to the extent any data call requests confidential information that insurers may request the protections afforded such information under a given state's laws.

In conclusion, Allstate urges the NAIC to continue to recognize the benefits afforded to consumers from the use of credit history in the rating and underwriting of insurance, as both regulators and legislators have done over the past two decades. We firmly believe that government should focus its efforts on educating the public on the use of credit history in determining the cost of personal lines insurance, and ensuring complete transparency in its use by insurance companies. We are committed to working with you and others in helping consumers understand how insurance scoring works in the marketplace and how it can help them with lower insurance premiums.

Sincerely,

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JoAnne L. Kron

c: Members of the Property and Casualty (C) Committee