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Comments for the Center for Economic Justice

To the NAIC Property Casualty (C) Committee

Proposed Private Flood Experience Reporting

September 2, 2019

The Center for Economic Justice offers the following comments on the two proposed private flood experience reporting tools – the proposed revisions to the Credit Insurance Experience Exhibit and the proposed new Private Flood Supplement to the Annual Statement

Private Flood Supplement

CEJ suggests utilizing the state page of the statutory annual statement in place of the proposed private flood supplement for the following reasons

- Six (6) of the proposed data elements are already included in the state page and these data elements are well defined and understood;
- Addition of written exposures and earned exposures for personal lines to the state page provides more useful information and are better defined than the proposed "Number of Policies in Force" data element in the proposed supplement;
- The three data elements for number of clams, claims open and claims closed with payment are already reported in the Private Flood Market Conduct Annual Statement;
- The data element for policies in a SFHA may be difficult for insurers to report because the insurers have no business reason to collect this information. If regulators want insurers to report these data, CEJ suggests this is the only data element for which a Private Flood Supplement to the Annual Statement is necessary.

CEJ recommends utilizing the state page, with key additions, for the bulk of the data proposed in the Private Flood Supplement and then limiting the supplement to only those additional data needed.

Specifically, CEJ recommends the following:

I. Add Private Flood Breakout and Personal Lines Data Elements to the State Page of the Annual Statement

1. Break Line 2.5 into
    a. Line 2.5.1 Residential Stand Alone First Dollar
    b. Line 2.5.2 Residential Stand Alone Excess
    c. Line 2.5.3 Residential by Endorsement to Other Property Insurance
    d. Line 2.5.4 Non-Residential

2. Adding two columns (data elements) for Lines 1 (Allied Lines), 2.3 (Federal Flood), 2.5 (Private Flood), 4 (Homeowners), 19.1 (Private Passenger Auto Liability), 19.2 (Private Passenger Auto No Fault), 21.1 (Private Passenger Auto Physical Damage)
    a. Written Exposures[1]
    b. Earned Exposures

II. Limit the Private Flood Supplement to essential supplemental information not otherwise captured in the revised State Page or Private Flood MCAS.

Discussion

We suggest that as a general rule it is better to utilize an existing reporting tool with defined data elements when possible than to create a new reporting tool with similar but different data elements. We also suggest that the State Page of the Annual Statement includes most of the desired data elements for private flood and, with modest revisions; the state page can achieve all or nearly all of the desired experience data for private flood.

Coverages to be Reported

The proposed Private Flood Supplement includes reporting for five coverages:

- Residential stand alone first dollar
- Residential stand alone excess
- Residential endorsement first dollar
- Residential endorsement excess
- Non-Residential

[1] Attached please find out CEJ's May 22, 2019 comments to the C Committee in which we provide a detailed explanation and road map for adding "written exposures" and "earned exposures" to the state page.

We suggest that for initial reporting residential endorsement first dollar and excess can be combined into a single reporting coverage – residential endorsement. We suggest this because it seems likely that any private flood provided by endorsement will be first dollar because an excess coverage (presumably to a NFIP policy) endorsement would be complicated since the loss provisions for a residential property insurance policies and the NFIP are quite dissimilar. If it turns out that excess residential flood is written through endorsements, that breakout can be added in the future.[2]

We also suggest the use of "non-residential" instead of "commercial" to ensure that the non-residential category captures all experience other than residential experience.

Data Elements

We discuss each proposed data element.

Direct Premiums Written: This data element is found in the state page. The state page data element is well defined. In particular, the state page makes clear that the reporting is for gross premium less refunds.

Direct Premiums Earned: This data element is found in the state page. The state page data element is well defined. In particular, the state page makes clear that the reporting is for gross premium less refunds.

Direct Losses Paid: This data element is found in the state page. The state page data element is well defined.

Direct Losses Case Reserves: This data element is different from the comparable state page data element Direct Losses Unpaid. It is unclear why regulators would be interested in only case reserves for private floor as opposed to, say, all loss reserves.

DCCE Paid: This data element is found in the state page. The state page data element is well defined.

DCCE Reserves: This data element appears to be in the state page as DCCE Unpaid. The state page data element is well defined. It is unclear if the intent is for the same reporting as the DCCE Unpaid data element on the state page.

Number of Policies in Force: This data element is not found on the state page. However, it is unclear what reporting is intended – PIF at beginning of period, PIF at end of period or average PIF during the period? No definition or instruction is provided for this data element.

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[2] Regulators will be able to identify the incidence of residential excess coverage by endorsement through the Private Flood Market Conduct Annual Statement.

We suggest that the proposed data element additions – written exposures and earned exposures – are a better way to identify the volume of policies/exposures. In addition, with written exposures and earned exposures – complementing written premium and earned premium on the state page – regulators and the public will be able to quickly calculate average written premium and average earned premium per policy/exposure by state.

Number of Claims Reported: This data element is not found on the state page. This data element is already reported in the Private Flood Market Conduct Annual Statement. If this data element is desired, we suggest there are four approaches

- Rely upon the data report in the Private Flood Market Conduct Annual Statement, which includes a number of claims-related data elements, including Claims Open During the Period, Claims Closed During the Period With Payment and Claims Closed During the Period Without Payment
- As part of a private flood experience supplement, which, in combination with the proposed additions to the state page, would be much shorter;
- Add schedule P exhibits for private flood to the annual statement. Schedule P includes columns for "Number of Claims Reported Direct and Assumed" and Number of Claims Outstanding Direct and Assumed" for the most recent 10 reporting years plus all prior.
- Through a special data call outside of the annual statement reporting

While we understand the value of these data, we note that in the aftermath of catastrophe events, states routinely request data on claims reported, claims settled and claims open to review claims activity in a more timely fashion than through routine annual reporting. We also note that the three claims-related data elements in the proposed private flood reporting supplement are already reported in the Private Flood MCAS. ***Based on the above, we suggest additional reporting of the following data elements in the Private Flood Supplement is not needed: Number of Claims Reported, Number of Open Claims and Number of Claims Closed with Payment.***

Number of Open Claims: We suggest this data element is already reported in the Private Flood MCAS. See discussion in Number of Claims Reported.

Number of Claims Closed with Payment: We suggest this data element is already reported in the Private Flood MCAS. See discussion in Number of Claims Reported.

Percentage of Policies Written in SFHA: We suggest this is a potentially difficult data element for insurers to report. However, if it is to be reported, we suggest this data element be the only data included in a Private Flood Experience Supplement.

Unlike lenders who are required to determine whether a property sits in a SFHA and unlike the NFIP whose rates are based on location in or out of SFHAs, private flood insurers have no business need to identify whether a property sits in or out of a SFHA because private flood rates may not be tied to SFHA boundaries. For example, a private flood insurer may have developed its own geographic rating factors, based, say, on flood cat risk models, and consequently, would have no reason to check if the lies within a SFHA.

Credit Insurance Experience Exhibit

CEJ supports the proposed revisions to the Credit Property page of the Credit Insurance Experience Exhibit for the reasons set out in our May 22, 2019 comments to the Committee, attached.

Comments for the Center for Economic Justice

To the NAIC Property Casualty (C) Committee

Recommendations for Regulatory Reporting of Private Flood Experience

May 22, 2019

CEJ has been deeply involved in flood insurance issues, generally, and in flood insurance data collections issues, specifically, for many years. We recently worked with the Market Conduct Annual Statement (MCAS) Blanks Working Group to develop the proposed private flood MCAS now before the Market Regulation and Consumer Affairs (D) Committee for approval.

Based on our work developing the private flood MCAS and promoting consumer protections for lender-placed insurance, we know that private flood insurance is:

- Offered as a stand-alone product or an endorsement to a homeowners or other property insurance policy
- Offered as first dollar or excess to the National Flood Insurance Program coverage
- Sold by admitted carriers and surplus lines carriers; and
- Sold on both a voluntary and lender-placed basis

The private flood MCAS (approved by the MCAS Blanks WG) and the lender-placed MCAS (approved by the NAIC in 2017) data elements and definitions reflect this understanding of the private flood market. For example, the private flood MCAS provides for separate reporting of data elements by stand-alone product vs. endorsement to another policy and by first dollar vs excess coverage. In addition, the private flood MCAS excludes lender-placed flood, as that coverage is broken out in the lender-placed MCAS.

We are also aware a draft exposure by the Surplus Lines WG for collection of private flood data from alien insurers as part of the annual reporting requirements for these insurers.

From the above, it is clear that to capture experience for the entire flood insurance market, data collection must capture:

- NFIP, private voluntary and private lender-placed flood
- Admitted and surplus lines private flood
- First dollar and excess private flood
- Stand alone and coverage by endorsement private flood
- Residential and commercial private flood

Towards this end, CEJ recommends the following:

1. <u>Amend the state page of the statutory annual statement to</u>
    a. Separate the current private flood into
        i. Private flood residential first dollar stand alone policies
        ii. Private flood residential excess stand alone policies
        iii. Private flood residential provided by endorsement to other property insurance policies
        iv. Private flood commercial
    b. Define the private flood lines to exclude lender-placed flood
    c. Add data elements (columns) for earned and written exposures

2. <u>Amend the Credit Insurance Experience Exhibit to</u>
    a. Separate the current lender-placed home dual interest and lender placed home single interest into:
        i. Lender-placed home hazard dual interest
        ii. Lender-placed home hazard single interest
        iii. Lender-placed home flood
        iv. Lender-placed wind-only
    b. Add written and earned exposures data rows

3. <u>Amend the proposed Surplus Lines private flood reporting format to</u>
    a. Break residential reporting into first dollar versus excess coverages and stand alone versus endorsement products; and
    b. Add the private flood MCAS to the surplus lines reporting requirements.

Amend the State Page of the Annual Financial Statement

This proposal consists of breaking private flood into more granular reporting categories, specifically excluding lender-placed flood and adding exposure data elements. The more granular data elements are need to discover what type of private flood is being written in the states – first dollar or excess, stand alone or endorsement. The exclusion of lender-placed (which would continue to be reported in the credit line of the state page) is proposed in conjunction with the proposal to separate lender-placed flood from lender-placed home in the CIEE and, taken together, provide for clear demarcation and instruction for reporting experience in the appropriate exhibit. The addition of exposure data elements to both the State Page and the CIEE are essential for calculating average premium per written and per earned exposures.

Amend the Credit Insurance Experience Exhibit

Although the lender-placed MCAS provides for separate reporting of lender-placed hazard, lender-placed flood and lender-placed wind, the CIEE does not. The CIEE was amended for 2004 reporting to improve the reporting of lender-placed insurance and currently breaks out LPI into LPI home and LPI auto and each into dual and single interest products. LPI flood and LPI wind have become much more common LPI coverages since 2004 so the proposed breakout by hazard, flood and wind is a natural progression for CIEE reporting and is consistent with the changes needed for regulators and stakeholders to monitor the private flood market.

Surplus Lines Reporting

We applaud the proposal for alien insurer reporting requirements for private flood insurance. Since the majority of private flood is now offered and written by surplus lines insurers, any review of private flood market experience must include surplus lines experience. We suggest the draft exposed by the Surplus Lines Working Group can be improved by breaking the proposed single column for residential into four columns:

- Residential stand alone first dollar
- Residential stand alone excess
- Residential endorsement to other property insurance first dollar
- Residential endorsement to other property insurance excess

Such change would create consistency in reporting surplus lines experience with that proposed for admitted carriers. In addition, we suggest that reporting requirements include the adopted private flood MCAS with minor tweaks in instructions. The minor tweaks would consist of eliminating the current instructions that exclude surplus lines and lender-placed experience and replacing them with an instruction to include all private flood, including lender-placed. Again, by adding the MCAS blank to the alien insurer reporting requirements, the NAIC creates consistence in reporting across admitted and surplus lines insurers and generates information for market analysis of surplus lines private flood markets.

Attached please find a draft Blanks proposal for amending the State Page of the Annual Financial Statement to add private flood detail and exposure data elements. If the Committee endorses the overall proposal for the State Page, CIEE and Surplus Lines reporting, CEJ will prepare a Blanks proposal for the CIEE changes and a surplus lines focused MCAS blank.

DRAFT Blanks Proposal –

Add Detailed Private Flood Reporting and Exposure Data Elements

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 one partial mock-up. An alternative to numbering the proposed new columns as 2 and 4 would be 1A and 2A, which would allow the remaining columns in the state page exhibit to remain the same.

A Written Exposure for lines 2.5.1, 2.5.2, 2.5.3, 2.5.4 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 2.5.1, 2.5.2, 2.5.3, 2.5.4 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.

Example. 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.

	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
2.5.1 Private Flood Stand Alone First Dollar				
2.5.2 Private Flood Stand Alone Excess				
2.5.3 Private Flood Endorsement First Dollar				
Private Flood Endorsement Excess				
2.5.5. Private Flood Commercial		XXXXXXXX		XXXXXXXX
. . .		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

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 2016 are published at the end of 2018. 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.