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VIA Electronic Mail: srobben@naic.org; joy.hatchett@maryland.gov

RE: APCIA Comments re: Draft Best Practices for Insurance Rate Disclosures

Dear Ms. Robben:

The American Property Casualty Insurance Association (APCIA)¹ appreciates the opportunity to provide comments on the Transparency and Readability (C) Working Group’s draft “Best Practices for Insurance Rate Disclosures” (“Draft”).

APCIA maintains that insurers provide significant amounts of information to their policyholders and the public. In addition to written disclosures already required by law, even a cursory review of insurance company websites will show vast amounts of information available to consumers about the companies, their market practices, and helpful advice to consumers on how to reduce their risk of loss.

As the Working Group was developing the Draft, discussions seemed confined to personal lines property and casualty insurance, but that is not reflected in the Draft itself.

APCIA recognizes there may arguably be room for the industry to improve transparency in communications with consumers, but the solution proposed in the Draft would not be helpful to consumers and would impose significant implementation challenges and expend resources better spent to reduce premiums. APCIA members have some significant concerns with the Draft, and specifically with the example disclosure notices for rate increases.

The Draft is intended to provide increased transparency to consumer regarding complex insurance underwriting and rating methodologies by suggesting insurers supply specific, and very detailed, information to policyholders. This information, without any context for an understanding of complex actuarial science, in no way serves the average consumer and may ultimately lead to increased consumer confusion and misunderstanding. This may be the case despite the rating/underwriting practices of the insurer being the result of regulatory review and approval. Complex rating and

¹ The American Property Casualty Insurance Association (APCIA) is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions-protecting families, communities, and businesses in the U.S. and across the globe.

underwriting practices of insurers are based on actuarial science that account for demonstrated predictors of risk and are necessary for companies to operate, and to offer the wide array of products and services available to consumers, while ensuring competitiveness and allaying solvency concerns.

Regulators are responsible to ensure that rates are adequate, not excessive, and not unfairly discriminatory as required by law. If one of the goals of the Draft is to ensure that insurers rating practices are sufficiently transparent for a determination of whether they meet that standard, the question should be whether the rating practices are sufficiently transparent for the regulator to make that determination, not each individual policyholder. The Draft fails to address that regulators often have prior approval authority and have access, even to confidential proprietary information, for legitimate regulatory purposes if confidential information is protected from disclosure to third parties. Requiring insurers to provide detailed, sophisticated information to policyholders at renewal to enable individual policyholder evaluations of rating practices is not consistent with state laws. In exchange for the legislature granting insurance regulators extraordinary power, some of the information provided to regulators is protected from public disclosure.

Further, forcing new disclosures on policyholders, many of whom will lack any context for an understanding of complex actuarial science, would not serve the public interest. Insurance consumers rely upon state regulators to ensure that rates are fair and compliant with state law. Requiring insurers to inundate consumers with even more information at renewal may ultimately lead to increased consumer confusion and misunderstanding. Again, complex rating and underwriting practices of insurers are based on actuarial science that account for demonstrated predictors of risk and are necessary for companies to operate, and to offer the wide array of products and services available to consumers, while ensuring competitiveness and allaying solvency concerns. Policyholders may understandably interpret the new disclosures as ‘just more paperwork’ rather than seeing the disclosures as a tool to improve clarity.

Insurance laws protect certain proprietary information from public disclosure. The sample disclosures contained in the Draft would erode some of these protections. It is likely that some information subject to disclosure in the Draft is proprietary to the insurer and/or to third party vendors but would necessarily be discernible from the level of detail required to be included in the disclosures. This could have a detrimental impact on competition. Confidentiality of proprietary information, even beyond the information that falls under the Trade Secrets Act, is necessary to support legislative goals favoring competition and innovation and protecting investment in intellectual property. Regrettably, these legislative objectives would be undermined by the example disclosure notices.

Should states choose to employ the example disclosure notices contained in the Draft, it likely will pose significant compliance challenges and burdens for all companies, even the largest companies. Multi-variant rating is not susceptible to the kind of specific public disclosures envisaged by the Draft. For example, a final rate may be the result of hundreds of factors and calculations not practically disclosable in a manner that would be useful to consumers.

As noted above, insurance rates are generated by sophisticated actuarial and statistical models, which are not intuitive to non-actuaries or statisticians. Requiring insurers to deconstruct rates to provide policyholders with the detailed information required by the Draft, even where possible, will not advance



the public interest and expecting consumers to evaluate mathematical and statistical methodology is likely, instead, to create confusion. Insurance rates and rating models are already subject to review, and quite often approval, by state insurance regulators; consumers are entitled to rely on the regulators to ensure that rates are adequate, not excessive, and not unfairly discriminatory.

Developing a system procedure to itemize premium impact in ways not required under existing law would be costly, especially for companies which have several systems maintaining multiple programs. Imposing these additional costs on insurers will eventually put upward pressure on rates and not serve the public interest.

APCIA offers to work cooperatively on a cost-effective approach that would deliver more information that is useful to most consumers, in the context of protecting proprietary information, supporting competition, and encouraging innovation. We do not believe the current Draft achieves this objective.

Thank you for the opportunity to provide comments. If you have any questions or would like to discuss any of our comments further, please let us know.

Respectfully Submitted,

A handwritten signature in black ink that reads "Lisa Brown". The signature is written in a cursive style and is followed by a horizontal line.

Lisa Brown
Sr. Director, Market Conduct and Counsel