



American Insurance Association

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(Via E-mail: Eric Nordman, enordman@naic.org)

Director Michael McRaith, (IL) Chair
Property and Casualty Insurance (C) Committee
Commissioner Kim Holland (OK) Chair
Market Regulation and Consumer Affairs (D) Committee
National Association of Insurance Commissioners
2301 McGee Street
Kansas City, MO 64108-2662

Dear Director McRaith and Commissioner Holland:

The American Insurance Association represents more than 300 insurers that write personal lines insurance in all U.S. jurisdictions. Consistent objectives of ours include the prevention of unnecessary losses through improved safety and risk based pricing, maximization of competition and achieving regulation that assures solvency and encourages competition.

Credit Based Insurance Scoring Has Improved Risk Based Pricing and Helped Create A Competitive Personal Lines Market.

The vast preponderance of the evidence from private, state and federal studies documents the value of insurance scoring in improving the accuracy of loss prediction and providing rating and underwriting that more closely track the risk of loss. See the attached list of study highlights that support this point.

The current competitiveness of the personal lines markets, in part due to insurance scoring, is well illustrated by several points. Using the HHI, a widely applied standard for determining market concentration, where a market with a score of less than 1000 is "not concentrated", personal auto insurance's countrywide 2008 HHI score is 671.4 with 333 competing companies and homeowners is 743.2, with 386 competing companies. Auto residual markets have also declined to 1.11%, down from 4.02% in 1994, and the vast majority of states without large coastal catastrophe exposures have homeowners residual markets of 1% or less.

Consumers Benefit from Insurance Scoring and Recent Economic Conditions Have Not Materially Changed That.

The majority of consumers (59% in the FTC study and higher for some companies) benefit from insurance scoring. In addition, over-all availability has been enhanced, resulting in both more competition and pressure to lower premiums.

Based on evidence from the NAIC's April hearing and the latest trends, insurance scores have been very stable with some improvement, even in the current economic climate. In addition, even for the small percentage of people whose insurance scores have declined, the average decline is only several points.

Based on the Evidence, Extensive New Regulation of Insurance Scoring Is Neither Warranted Nor Beneficial.

We have consistently argued for pro-competitive regulation of insurance scoring. For this reason, we have supported reforms such as additional notices, regulator access to information and measures to address scenarios that created concerns, as embodied in the National Conference of Insurance Legislators (NCOIL) model law that has been adopted by the majority of states.

There are some additional actions state regulators could take when they feel additional steps are necessary, but these actions will not endanger the benefits to consumers or the competitiveness of the markets. This summer, NCOIL has approved some additional language on life circumstances exceptions that regulators might consider. In addition, we have suggested that state complaint systems better identify insurance scoring related complaints, consider their importance in the context of the number of transactions that have not given rise to complaints and work with insurers and their representatives to address any legitimate issues that might emerge from this analysis.

However, we have concerns regarding a proposal to regulate scoring modelers and providers as "advisory organizations." Our initial impression is that the vendors may not fit well under the prevailing definitions of advisory organization contained within state law. In addition, the practical value of the change is unclear. Today, regulators have the ability to review model changes as insurers prepare to implement them. This would mean that the models would be considered even without anyone having opted to use them. Also, it would seem that by treating the vendors as advisory organizations a tracking or monitoring-type structure would need to be developed (consider ways loss costs are handled today). This may not be efficient, especially given that the current system is adequate for regulatory review. We expect that there may also be concerns with confidentiality and other practical issues, which we respectfully ask to reserve the right to raise in the future (given the short deadline). We also suspect that the modelers, themselves, will share additional concerns.

Conclusion

Current positive personal lines market conditions benefiting consumers have resulted in part from insurance scoring. We do not see a proven need for new regulation; we do believe regulators have access to tools – new and existing - if they feel action is necessary.

Sincerely,

David F. Snyder
Vice President & Associate General Counsel, Public Policy

Attachment