Property Casualty Insurers
Association of America

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COMMENTS

OF

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

ON

PROPOSED DATA COLLECTION FOR THE PURPOSE OF STUDYING AFFORDABILITY AND AVAILABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE

The Property Casualty Insurers Association of America (PCI) represents nearly 1000 insurers that provide 40% of the private passenger automobile insurance in the U.S. Our companies have a long term commitment to the consumers they serve and to constructive engagement with regulators.

PCI is very concerned about the fundamental approach to achieving affordability that is expressed in this data call and its inconsistency with time tested and effective regulatory standards. PCI believes the best way to address affordability is to prevent and reduce the costs that drive prices. In addition to threshold public policy concerns, we also provide more specific comments and recommendations based on input from our member companies.

Cost-Based Pricing Is the Core of Our Successful Auto Insurance Regulatory System

Auto insurance is comprehensively and effectively regulated by the states. The core of this time-tested system is the “excessive, inadequate, unfairly discriminatory” standard in state rating laws that apply to personal auto insurance. Pursuant to that legal standard, regulators have the authority to require companies to disclose all data and other information supporting their pricing, approve or disapprove of the companies’ pricing and additionally assure compliance through a wide array of examination and enforcement tools.

The NAIC reiterated the centrality of this legal standard in its whitepaper on price optimization. However, the proposed data call would mandate the collection of data to determine results measured against, and show differences relating to, an entirely different standard—that of “affordability”.

An affordability standard is substantially different from, and even contrary to, the cost-based pricing standard embedded in state law to which companies must adhere and regulators enforce. In practical terms, when affordability is substituted as the standard in place of cost-based pricing, the inevitable result will be prices that are violative of state rating laws-- excessive for some, inadequate for others and unfairly discriminatory for many.

Affordability Is Best Advanced Through Reductions in Losses, Not Unfair and Arbitrary Subsidies

We do share a desire to have insurance be as affordable as possible, consistent with cost-based pricing as required by law. The only valid way to do that is to reduce the risk of loss by addressing the factors that are driving costs and that are largely passed through to consumers via the insurance mechanism. PCI has identified some of the sources of rising costs and effective policy measures to reduce that risk, for example, by providing for stricter laws and enforcement of drunk, drugged and distracted driving, slower speeds and increased traffic law enforcement and primary enforcement of all passenger safety belt laws.

Addressing affordability though underlying cost reductions has several advantages over using pricing to arbitrarily create "affordability". First, this approach is entirely consistent with the proven effective state law cost based pricing standards. Second, it has significant collateral social and humane benefits such as preventing crashes and injuries and saving lives with all of the related personal economic effects. And third, it does not intervene in the well-functioning auto insurance market where prices reflect costs, and so avoids potentially disincentivizing the commitment of capital and the resulting loss of competition and consumer choice.

Necessary Confidentiality Protections Are Not Addressed In the Proposal

Whether aggregated or not, the confidentiality of any data that is collected under the proposal should be assured. Yet, the proposal is silent on the issue. Data collection by the states is governed by applicable confidentiality laws that are well understood. Data collection by non-regulators on the other hand, is less certainly protected. Protection of this data is particularly important in that it involves significant company investment, intellectual property and competitively sensitive information as well as potentially significant amounts of personal data.

The Data Collection Is Best Accomplished by Statistical Agents

The licensed statistical agents, including a PCI affiliate, the Independent Statistical Service, have the capability and willingness to collect the data if the companies provide it. Using these regulated statistical agents has many benefits. First, the agents can help establish and then implement the desired uniform protocols and requirements so these functions will not need to be done by the NAIC or states, along with saving the elated costs. Second, the data that is provided to the regulators will be quality tested by the statistical agents. And third, because the information is not company specific, the concern for confidentiality can be mostly mitigated.

Broad Based Concerns for Multiplicative and Inconsistent Data Calls and Related Costs and Burdens

Our companies, large and small, expressed deep concern about the proposal leading to different and inconsistent data disclosure mandates by the states. This concern is illustrated by the examples provided of the different state laws, each of which has created new burdens and costs for the companies.

There is a strong and widespread desire to have any data call structured so as to be uniform and not requiring of any manual actions, as that will add significantly to costs. One of our smaller companies was so concerned about these dangers that they asked us to advocate a small company exception.

The Proposed Data Call Presents Numerous Specific Problems

The December 2016 NAIC affordability data call will require resources with little evidence of providing credible insights. Its lack of clearly defined data elements and massive scope have caused concern throughout the industry. From an actuarial standpoint, the proposal raises questions about the validity of results. Furthermore, insurance regulators have failed to investigate existing data sources and reports to answer the questions posed. We urge regulators to re-examine the purpose of this data call, and the extent to which this burdens insurers, the costs of which will ultimately be borne by consumers.

1. The purpose of this report is to measure affordability, but affordability remains undefined. Additionally, affordability is subjective and unique to each consumer. We provided extensive information on this point to the Federal Insurance Office in our opposition to the arbitrary 2% threshold that they set.
2. American Community Survey (ACS) data does not contain all the variables necessary to adjust premiums to a common base. Additionally, ACS data is incomplete; depending on the variable, up to 16.6% of data points are imputed.
3. The proposal ignores the pass through nature of insurance. Loss costs should be examined for affordability issues, not premiums.
4. The data needs to be adjusted for several factors in order to provide an apples to apples comparison:
    a. Insurer expenses and profit goals
    b. Differences in coverage
    c. Final payment by policyholder (subsidies should be taken into account)
5. The data elements are poorly defined. Attaching previous data calls from CA, MO, & PA doesn't necessarily help. E.g. Driver risk-class is too broad, and doesn't capture the spread of insured risks.
6. If auto ownership affordability is the issue, all costs of owning an automobile should be considered. Insurance is only a small fraction of the equation. Furthermore, if only BI/PD insurance is mandatory, PIP, comprehensive, and collision should be excluded from the report.
7. Most alarmingly, the proposal is considering state specific tailoring of the data call. It is already cumbersome to assemble a single data call, nonetheless 51 data calls of varying complexity.

The answer to the proposed questions will likely give rise to yet more questions and concerns:

1. Comparing raw premium values in an inaccurate way to measure affordability. One would need to adjust for other rating factors and expense differences in order to perform an on-level analysis. Furthermore, comparing premium to income is an oversimplification. What about the overall cost of car ownership? What about the differences in cost of living and household expenses? Will the study consider if more "affordable" options are available in the marketplace?
2. Again, comparing the prevalence of basic limits insurance is an oversimplification. Consumers have different levels of assets to protect, and that should be taken into account. Due to multiple distribution and marketing channels, it would be difficult to determine bind/declination ratios. Will the study consider the nature of the declination?
3. We can expect to see differences in loss ratios by ZIP but those differences will be the result of losses, which would be entirely consistent with cost-based pricing, not insurers rating on the basis of impermissible demographic data. How will the volatility be accounted for? How will credibility be incorporated?

4. Complaints have nothing to do with affordability, nor is it mentioned as a data and complaint data, along with caveats, is already available.
5. Affordability and availability are not the only issues at play here. The study should look at all factors that provide incentives/disincentives to drive uninsured.
6. Structure is not well defined here. Territories are used to reasonably group loss costs. A single small company would likely not have sufficient data to determine fully credible loss costs in a territory. Furthermore, this exercise would be difficult due to differences in rating territories by company.
7. The data collection effort would need a clear definition of what is a “clean risk”. We know that driving record is not the only predictive variable, and doesn’t tell the complete story of prospective risk. Will the data be adjusted for rating variables outside of “clean-risk” before analyzed?
8. This does not address the differences in residual markets, and their causes. One cannot look at residual market size without reviewing an insurer’s ability to underwrite risk for an appropriate price.

Complying with the proposed may be burdensome and expensive, especially for smaller companies. Below are more specific concerns raised by our member companies.

1. A countrywide uniform format will be more efficient than responding to multiple data requests with states adopting their own variations.
2. Because of the variety of distribution channels, the number of applicants written, number of refusals to write, number of complaints, etc. are rarely captured electronically. Therefore, the requirements for quotes is not data readily available to report.
3. Case reserve practices vary greatly between companies, as well as loss development factor (LDF) applications. LDF application on the level requested is not performed for a business practice and is outside the system. Therefore, reporting this calculation as requested will require manual intervention and estimation.
4. Credibility on a zip code level will be an issue for smaller companies if the data is not aggregated through statistical agents, as recommended.
5. Translating limits and deductibles into the grid will require manipulation of the raw data. Therefore, requiring more costs to the call.
6. Direct Defense and Cost Containment (DCC) data by zip code may not be readily for some companies. For those companies, most of DCC is unallocated loss cost expenses, calculated and stored at a company by line level. It is not allocated down to the policy level, and hence not available on a zip code level.
7. There is discussion regarding blending the data from the coverage of UM to make conclusions of the uninsured motorist population. The Insurance Research Council may be a better approach for this than collecting more data from companies.
8. Use of statistical agents and the uniformity, efficiency and mechanization they provide will be fundamental to any successful data collection effort and will reduce costs and burdens on companies and regulators.
9. Date ranges should be synchronized.
10. Earned and written exposures at the zip code level may require manual processing.
11. A question is presented as to how assigned risk business that is handled through a LAD will be reported.
12. It is unclear as to how standard versus non-standard is to be uniformly defined.
13. Converting premiums to basic limits will require a uniform approach.

14. Companies may differ as to how they convert a loss development factor to arrive at the ultimate loss.
15. We question where and how accurate data on income levels will be obtained.
16. Ultimately, we are concerned that the proposed data call will be both burdensome and costly and not scientific.

Conclusion

As summarized above, PCI has serious concerns about the public policy, usefulness, practicality and cost/benefit of the proposed data collection effort. We therefore respectfully ask that the NAIC and its members give these issues serious consideration and refocus their efforts on working with us to make auto insurance more affordable through preventing losses while continuing to apply time-tested and effective regulatory standards without imposing unproductive new burdens and costs.