

NAIC - Property and Casualty (C) Committee
Public Hearing on Proposed Risk Classification
Data Call

and Other Risk Classification Tools
Kansas City, Missouri

Thursday, September 30, 2010

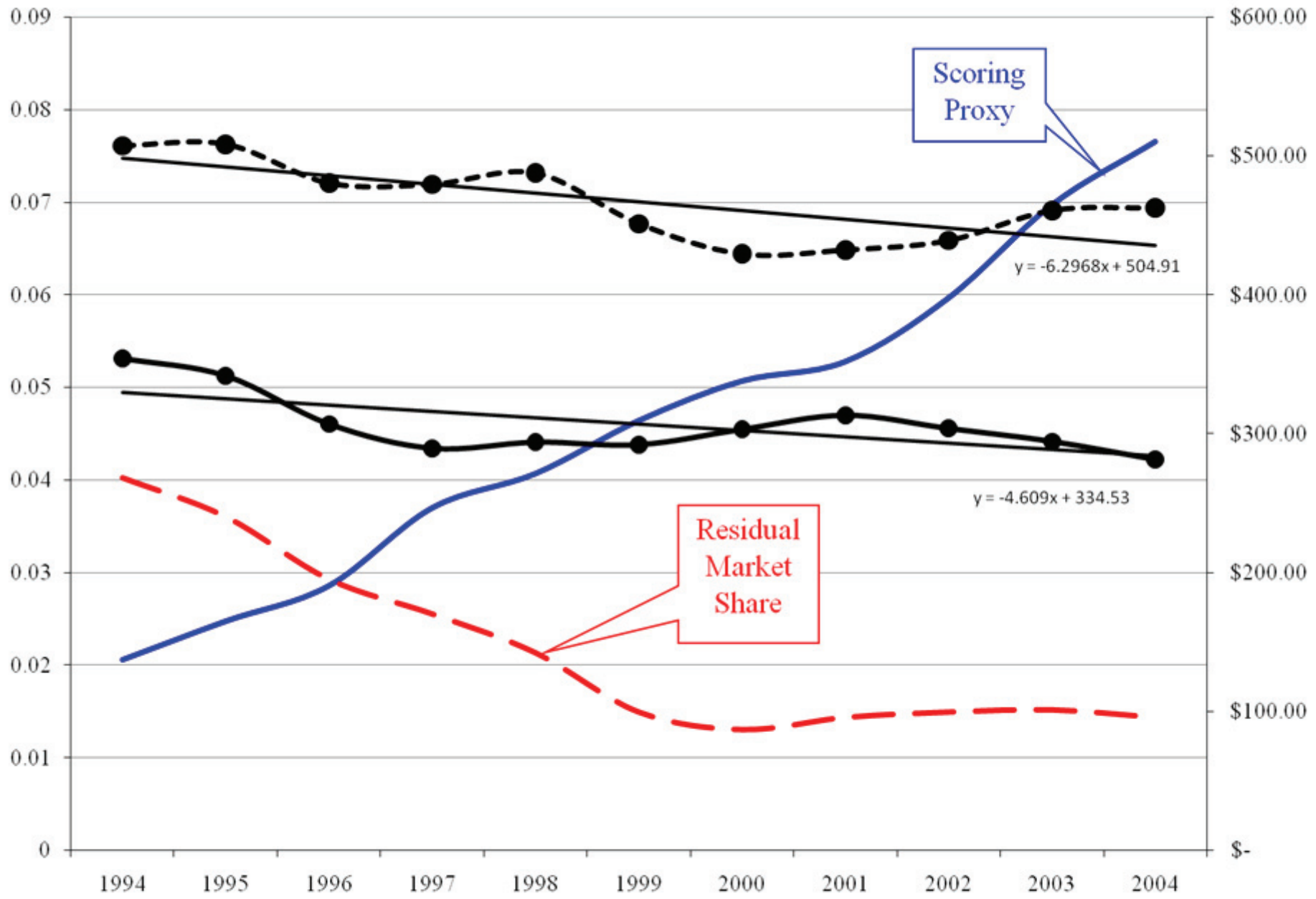
Testimony of
Lawrence S. Powell, Ph.D.
Policy Advisor, The Heartland Institute
Whitbeck-Beyer Chair of Insurance and Financial Services
College of Business
University of Arkansas – Little Rock

Purpose of Data Call

- ▶ Evaluate how insurers use CBIS
- ▶ Determine how current economic conditions have affected policyholder premiums related to CBIS
- ▶ Evaluate the role played by CBIS vendors
- ▶ Evaluate the use of new classifications and evaluation tools

How do Insurers Use CBIS?

- ▶ To improve accuracy of rates
- ▶ Consider market-wide outcomes
 - Residual markets shrink
 - Cost decreases
 - Price decreases

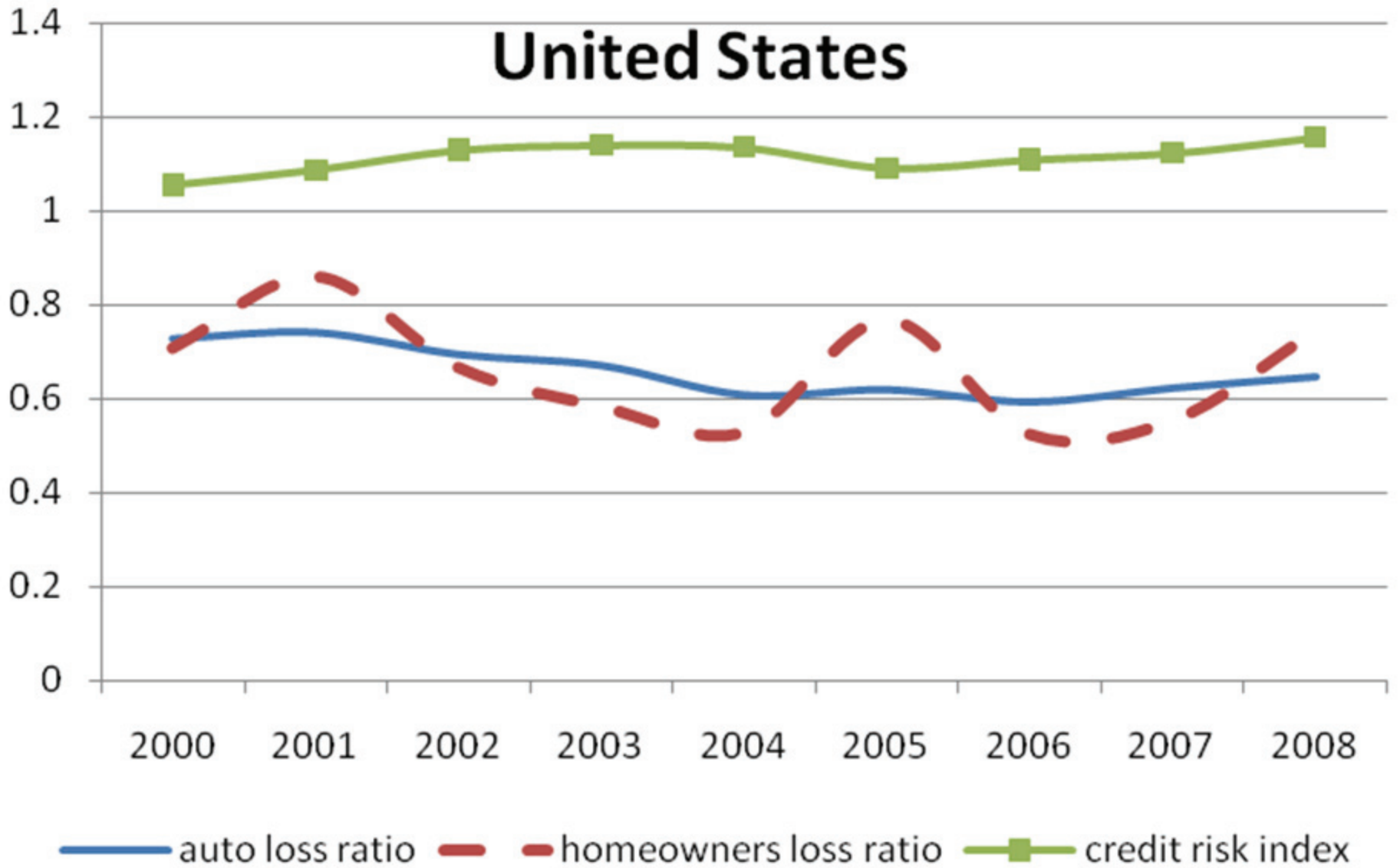


— Scoring Proxy - - Residual Share -●- Real premium per car ●- Real losses per car

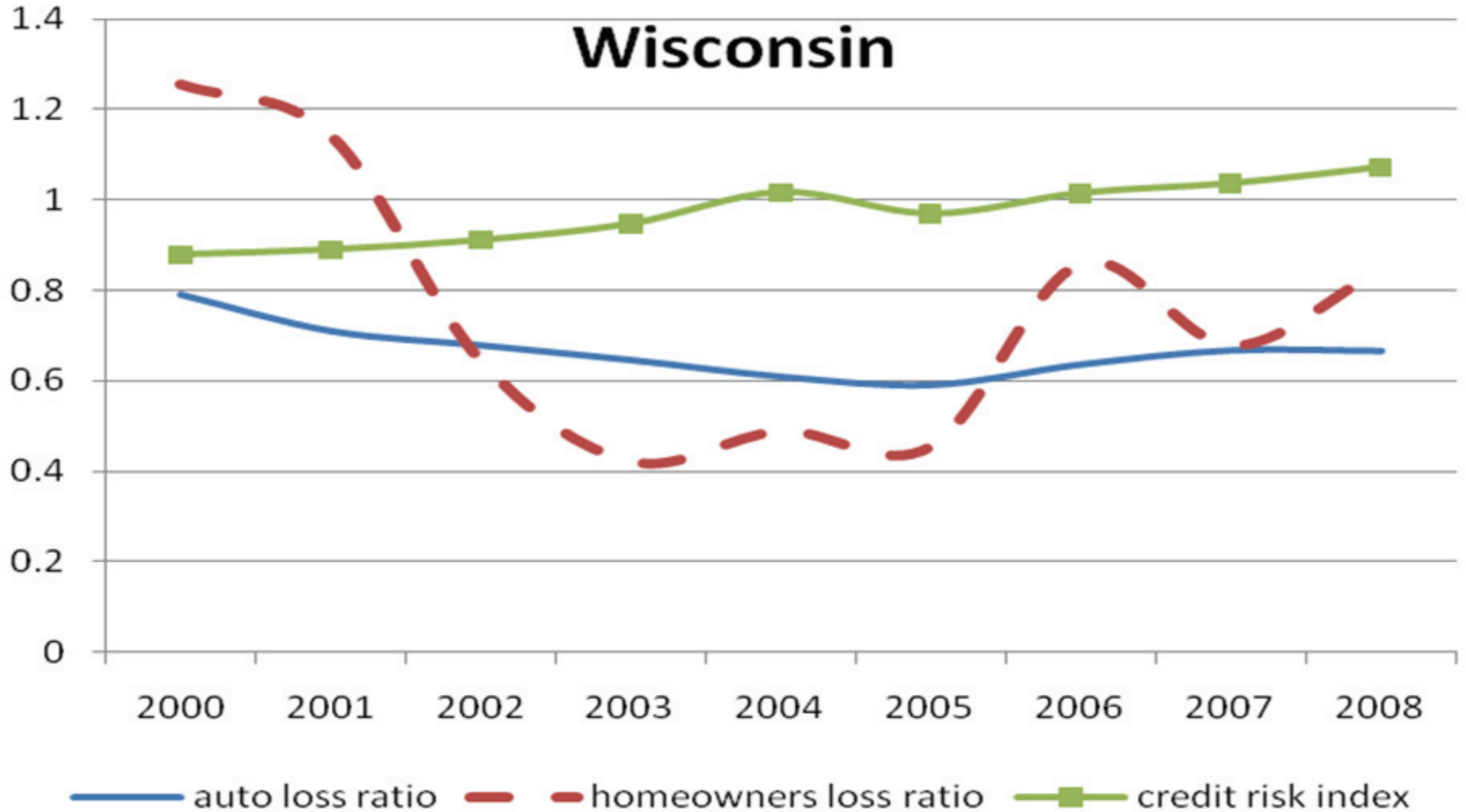
How have current economic conditions affected premiums?

- ▶ They have not affected premiums via CBIS
- ▶ Models are recalibrated frequently
- ▶ Regression results
 - Estimate: loss ratio = $\beta(\text{credit risk index}) + \dots$
 - $\beta = .08$, not significantly different from zero

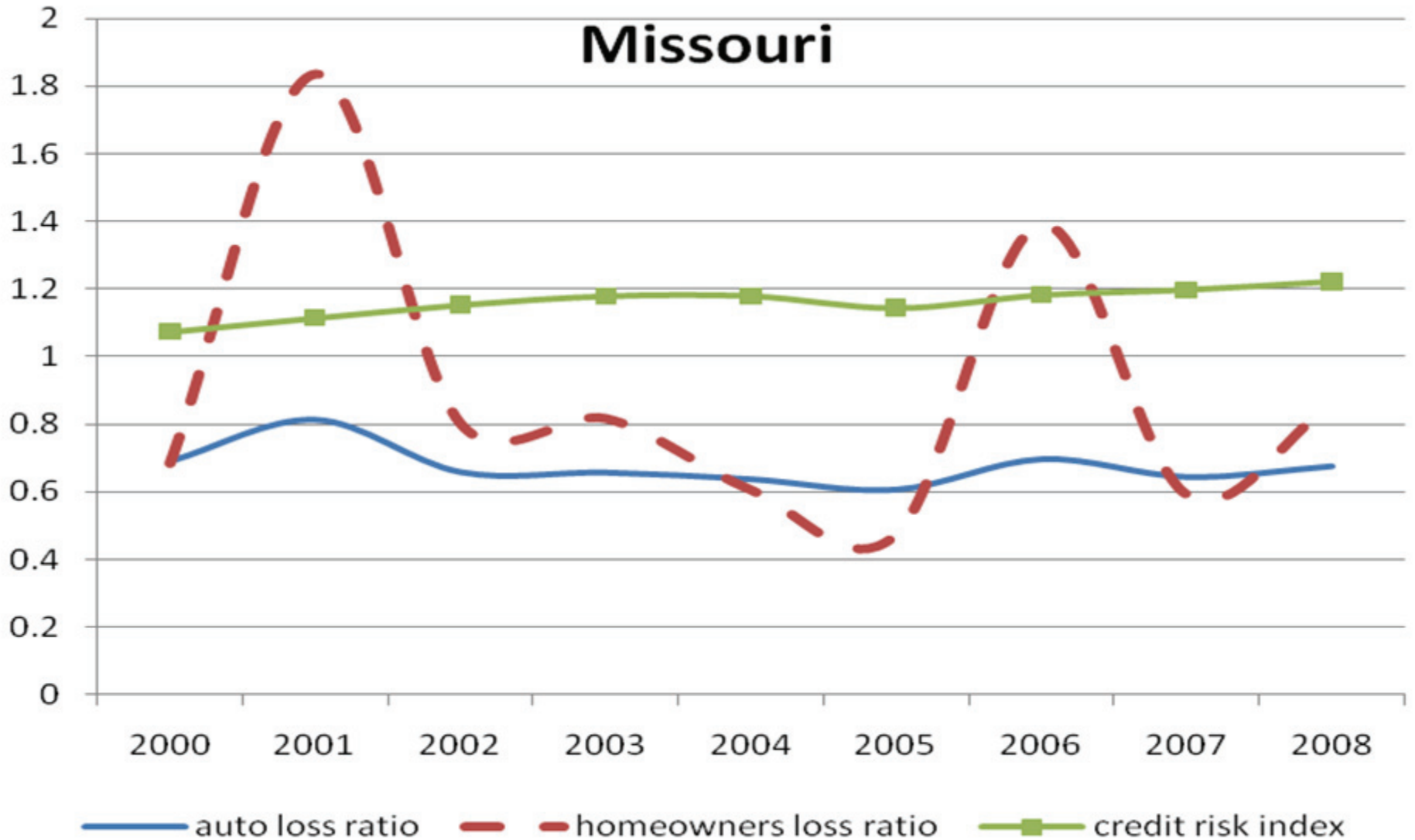
United States

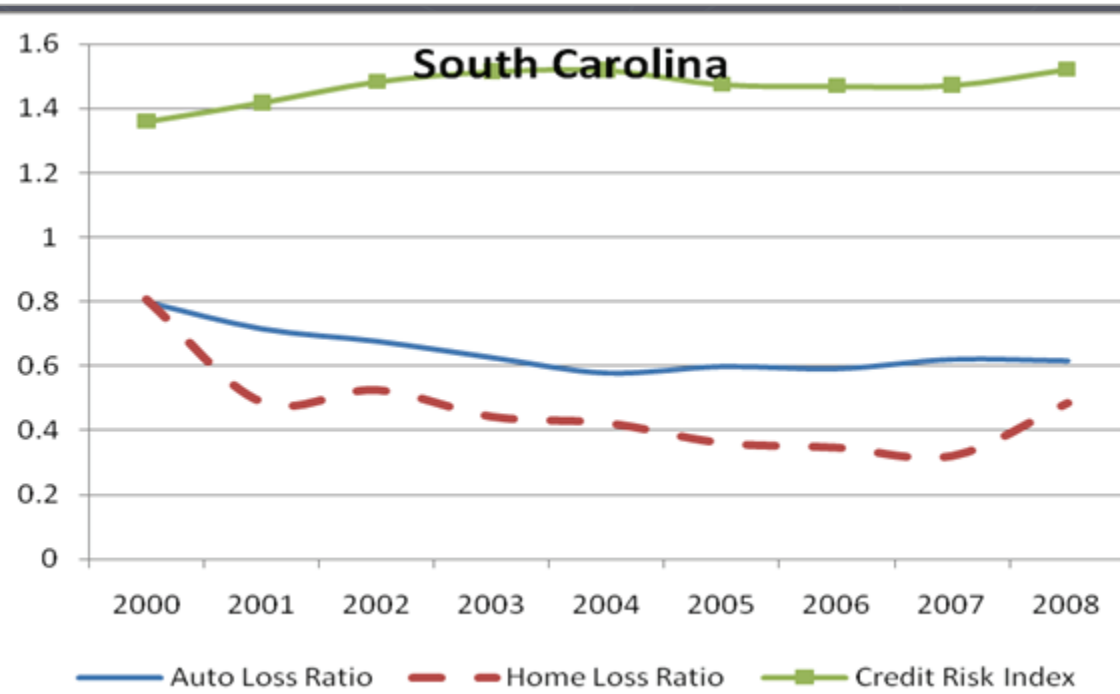
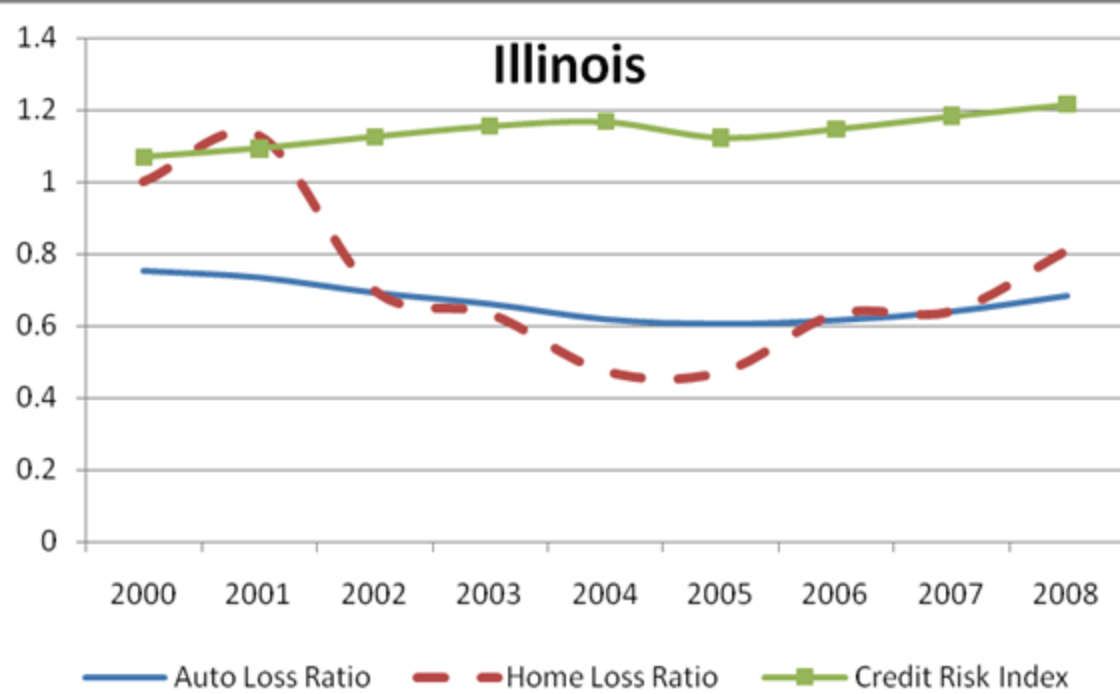


State with most change in credit risk



Current location





Design of the Data Call

- ▶ Analysis of these data will be biased by several factors if applied to individual insurers
 - Interdependence of rating variables
 - Varying distributions of applicants