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Recommendations for New Data Elements for Market Analysis Data Collection

**Market Analysis Procedures Working Group
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We appreciate the efforts of the subgroup in developing its recommendations for additional lines of insurance to be included in existing NAIC market regulation systems. However, the subgroup did not provide any recommendations on the core charge of what additional data elements should be collected as part of the Market Conduct Annual Statement (MCAS).

One thing that is clear from the subgroup's recommendations is that market analysts need more data and need those data in useable tool. The best way to accomplish that task is by expanding data collection for market analysis from the current MCAS of a few dozen summary data elements with a few thousand records to transaction reporting of a few dozen data elements with millions of records.

It is useful to look at what type of data and analysis insurers use to develop their underwriting, rating, marketing and claim settlement practices and strategies. Insurers use data mining and predictive modeling of detailed transaction data – data on each application, policy and claim – and often combine these data with other consumer-specific data to sort through the data to identify unknown relationships.

In comparison, market analysts are working with pre-historic data tools.

The MCAS as currently configured is unchanged from its initial structure – and remember that the initial structure was considered simply a pilot project – of a small number of highly-summarized data elements for a few lines of insurance.

The limitations of MCAS are obvious. The MCAS for annuities asks about replacements at an aggregate level and provides a ratio of replacements to total new contracts. This is a very blunt tool. It would be much more useful and efficient if the market analysis could identify internal and external replacements and new contracts by age of the annuitant, by size of the annuity, by both age of annuitant and size of annuity, and by producer. It would be incredibly helpful to be able to review activity by producer across insurers and to review activity by consumers across insurers.

The MCAS for auto and homeowners asks about time frames for claim settlements and associated lawsuits. But insurers who settle claims in 59 days are treated differently from those who settle in 61 days, but the same as those who settle in 31 days. Again, a blunt tool. It would be much more useful to analyze claim settlement times and lawsuits by location within the state, by type of coverage, by cause of loss and by any combination of the three. And, of course, the MCAS provides no information on applicants who did not purchase a policy, on changes in average premium, on changes in insurance scores or other indicators of availability and affordability.

There is an urgent need for market analysis data collection to make the jump from summary data to transaction data. The current MCAS is summary data. Transaction data means a record for every applicant, policy and claim – two data sets, one for applications and policies and a second for claims with the ability to connect the two when needed. For transaction data, each application and policy data would include all the underwriting and rating characteristics of the consumer, the premium quoted, characteristics of the policy such as policy form for homeowners and individual records by coverage for personal auto, whether the policy was purchased, whether new or renewal, if the policy was canceled or non-renewed and, if so, for what reason. The claims data would include amount of payment, cause of loss, coverage implicated, cat or non-cat event and lawsuit information.

Summary data are limited in several ways:

1. Very limited analysis – can only answer limited number of pre-determined questions. Any new question requires new data and a new report. No ability to do data mining or predictive modeling or any kind of multi-variate analysis.
2. Very limited ability to ensure data completeness or data quality. Easy for insurers to manipulate data without discovery by regulators.
3. Problems with different data definitions across insurers
4. Inefficient and costly to modify the data reporting

In contrast, transaction data

1. Allows more robust and detailed data analysis – more refined market analysis means more efficient market regulation as regulators focus on problems and do not both companies with requests for explanation of summary data anomalies.
2. Meaningful opportunities for data quality review – completeness and accuracy of the data. Data can be reconciled to other sources and can be audited against individual files.
3. More flexible and efficient for regulators and Insurers. New questions can be answered without existing data and more efficient to add new data elements.
4. More accurate and more efficient because issues of different insurer definitions are eliminated – data comes in at smallest unit and the statistical agent utilizes a consistent approach of counting claims, replacements, etc.

How can the move to detailed market analysis data collection be accomplished? More easily than creating a new infrastructure for the current MCAS.

The basic structure is for a regulator to develop a statistical plan – the data dictionary telling insurers what to report and how to report it – and to designate a statistical agent to collect the data on behalf of the regulator and then review, compile and produce reports to the regulator.

This is exactly what is done now for financial statements (NAIC is statistical agent), statistical data for p/c (ISO) and life insurance (MIB).

The stat agent has the following duties:

1. Collect, review for accuracy and compile data
2. Produce standard reports – which would be more detailed than the MCAS ratios, but still standard reports
3. Produce data and analysis upon request from the regulator, which might include an extract of the detailed data for use in an examination or a non-standard analysis to answer new questions / issues not found in the standard reports.

Tremendous Opportunity Right Now!

As the NAIC develops principles based reserving for life insurance, health insurance, annuities and long-term care insurance, one of the activities is the development of PBR experience reporting: a transaction-detail statistical plan for reporting experience of life, health, long term care insurance and annuities.

The current draft of the experience report covers life insurance and most of the data elements needed for market analysis. The addition of only a few data elements would make the PBR experience reporting completely functional for market analysis.

And one regulator has proposed that the NAIC be the stat agent for the PBR reporting.

Conclusion

A firm commitment to move market analysis data collection to transaction reporting utilizing a promulgated statistical plan and designated statistical agent is not only essential for regulators to achieve the promise of effective market analysis, but it is the most expeditious way to improve the MCAS. It is the best strategy now because it builds on existing infrastructure and taps the expertise and capabilities of existing institutions – both regulatory and insurer. It allows the collection of data from new lines of insurance without reinventing the wheel. It would give regulators tools which match those of the insurers you regulate.