NAIC/INDUSTRY LIAISON COMMITTEE

NAIC/Industry Liaison Committee Sept. 22, 2009, Minutes

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NAIC/Industry Liaison Committee
Washington, DC
September 22, 2009

The NAIC/Industry Liaison Committee met in Washington, DC, Sept. 22, 2009. The following Committee members participated: Susan E. Voss, Chair (IA); Michael T. McRaith (IL); Sandy Praeger (KS); Sharon P. Clark (KY); James J. Donelon (LA); Wayne Goodwin (NC); Ann Frohman (NE); Scott J. Kipper (NV); Joel Ario (PA); Joseph Torti, III (RI); Kent Michie (UT); Alfred W. Gross (VA); Mike Kreidler (WA); Sean Dilweg (WI); and Jane L. Cline (WV).

The following industry representatives participated: Deirdre Manna (Property Casualty Insurers Association of America—PCI); David Snyder (American Insurance Association—AIA); Eric M. Goldberg (American Insurance Association —AIA); and Reid A. Edwards, III (Risk Management Solutions, Incorporated (RMS).

1. Personal Lines Insurance

Mr. Snyder reported that the personal lines of the insurance market are generally working well for the public, with the exception of some catastrophe-related matters. In personal auto insurance, he stated that the market was generally competitive, due in large part to safety and other loss-reduction efforts. He indicated that premiums have been relatively stable overall, but issues that present challenges include the state of the economy, distracted driving and claims inflation, as well as adverse legislative, judicial and regulatory developments. He said auto insurance costs remain comparatively affordable and that the auto-residual markets are at historic lows, as reflected in premiums that are 55.97% lower compared to premium costs from 1995 to 2007. He claimed there are challenges presented from the use of regulatory authority over the prior approval of rates and forms, as well as the potential risk of governmental price and product controls, as exemplified by the states of Massachusetts and New Jersey. He said he believes that less-intrusive regulation would lead to greater availability and affordability. He also pointed to a "one-size-fits-all" mileage-based insurance scheme as another negative government intervention that could prevent innovation, discourage investment capital and add risk to underwriting. Mr. Snyder also noted that there was a federal health care legislative amendment that would move all medical-payment coverage out of the auto insurance system and transfer it to the health care system. He opposed the amendment and encouraged regulators and others to oppose it, on the grounds that it would lead to less generous benefits for customers and separate auto accident reparations from risk-based pricing that incentivizes safe behavior. He also commented on homeowners insurance, reporting it to be generally performing well, but vulnerable to catastrophe losses.

2. The Center for Insurance Policy and Research (CIPR)

NAIC Chief Executive Officer Therese M. (Terri) Vaughan, Ph.D., provided an update on the CIPR. She stated the mission for the CIPR is to serve federal and state lawmakers, federal and state regulatory agencies, international regulatory agencies, and insurance consumers, by enhancing intergovernmental cooperation and awareness, improving consumer protection and promoting legitimate marketplace competition. She said the NAIC established the CIPR in 2009 within its Executive Office to leverage the resources of several NAIC departments and non-NAIC academicians to support the collection of information and analysis for use by state and federal officials, agencies and policymakers. The CIPR coordinates the collection and dissemination of insurance data and research for the purpose of enhancing:

1. Regulatory cooperation between federal, state and international agencies and functional regulators.
2. Comprehension of insurance-related topics and issues by federal policymakers and others.
3. Insurance information exchange between the states and the federal government.
4. Participation by the NAIC and state insurance regulators in public-policy discussions and decisions affecting insurance and the broader financial-services sector.

She noted that personnel under the CIPR included: Ramon Calderon, formerly of the California Insurance Department, who would coordinate CIPR activities; Edward Toy, a capital markets expert; Dr. Mary Weiss, a visiting scholar focusing on solvency regulation and modernization; and Peter Budetti, a health insurance fraud expert on sabbatical, who will support health care issues. She indicated that CIPR research will support the NAIC's work but that CIPR members would have the freedom to write and publish under their own names to promote thought leadership. She said that thought-leadership on solvency modernization, as well as the proposed federal Office of National Insurance and/or the Office of Insurance Information are "large concept" issues that would fit well under the CIPR.

3. NAIC Rating Agency Model

Commissioner Voss reported that there was no reportable movement on the NAIC rating agency proposal, but consideration was still under way.

4. NAIC Natural Catastrophe Model Study

Ms. Manna expressed concern about the natural catastrophe model study on the NAIC budget, questioning the purpose of the model, the process for considering its feasibility, whether it was to displace private models in the market and whether there were political considerations driving its creation. She emphasized that it was being provided for by industry funds and, as stakeholders, they were not being informed of the process. Commissioner Voss responded that the industry is not going to see a line item in the budget suddenly appear and this initiative was based on thoughtful consideration being undertaken by state insurance regulators to manage catastrophes. She explained that state insurance regulators have a duty to policyholders to actively look at options and be mindful of costs. She questioned what was meant by “political reasons” for driving its creation. Mr. Edwards (Risk Management Solutions—RMS) stated that this would an expensive process to create, maintain and keep updated. He stated that RMS was working with the Property and Casualty Insurance (C) Committee on updating the actuarial handbook and proposed an informational webinar series to be offered at the Winter National Meeting on how models should and should not be used. He said RMS would be willing to work closely with the NAIC to provide more information, if desired. Eric Nordman (NAIC) indicated that budgetary concerns about this proposal were premature, noting that the Natural Catastrophe Model Study Group planned to continue its review of the feasibility study and evaluate all options. He said the Study Group received a report from two consultants retained to conduct a feasibility study on the scope, timeline, steps required, data required and potential costs of building a natural catastrophe model for multi-perils for personal lines. The feasibility study contemplated the building of a national hurricane model and a national earthquake model. The consultants’ final study estimated costs for assessing losses at the ZIP code level and geocode level and included a section detailing possible alternatives to building a national model. The final report is being evaluated and considered at NAIC executive staff levels.

5. Other Issues

Mr. Snyder raised concerns about general discussions covering credit-based insurance scores. He suggested that commentary around the issue was not focused on insurance scores but, rather, consumer credit scores — and the insurance industry had not noticed an uptick in complaints in this area. Mr. Snyder also raised the issue of policy readability, expressing concern that contracts and policies rewritten in “plain language” would need to be done judiciously because of the liability ramifications that are reflected in current policy language due to past litigation.

Having no further business, the NAIC/Industry Liaison Committee adjourned.

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