Recent Developments and Common Pitfalls in Property and Casualty Rate Filings

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Recent Developments:

Credit-Based Insurance Scoring (CBIS):

Payment in Full on Revolving Accounts

- Ability to determine whether a revolving trade account (e.g., a credit card) has its balance paid in full each month.
- Previously, variables only considered whether the account was paid "as agreed" – e.g., whether the consumer made at least the minimum payment on a credit card each month.
- Historically, credit-utilization variables captured balance "snapshots" – arbitrary dates at which the account issuer chose to report to the credit bureau, not necessarily related to the due date for a monthly payment.
- Consumers who pay off their revolving balances in full (often within the grace period, to avoid interest charges) may present a different, more favorable level of risk as compared to consumers who only make the minimum payments and/or decide to incur interest charges.
- Use of this information may benefit consumers with fewer credit accounts but who have a consistent history of paying off revolving accounts in full.
- As always, variable-specific supporting data are required in Nevada.

Recent Developments:

Credit-Based Insurance Scoring (CBIS):

Information on Broader Range of Accounts

- Telecommunication and utility accounts and inquiries may now appear on certain reports collected by credit bureaus and data vendors.
- The data are maintained by the **National Consumer Telecom & Utilities Exchange**: consortium of 95+ companies in telecommunications, utilities, and pay TV industries.
- Several major vendors of credit data have developed lending-oriented scores based on utility & telecommunication account information during the past 5 years.
- Considering telecommunication and utility accounts in CBIS models may help individuals without traditional credit histories demonstrate reliable payment patterns and a history of financial responsibility.
- Such consideration may also reduce the population of credit no-hits and thin files by enabling many more individuals to become scorable.
- *However*, it is important for consideration of such accounts to have the potential to benefit an insured (via recognition of consistent, timely payments), not just create more possibilities for surcharges.

Recent Developments:

Public-Record Information

Information on Residence History

- The Nevada Division of Insurance currently only allows length of residency to be used to provide discounts at the time of new business. Nevada-specific supporting data for other uses of residency information have generally been lacking.
- Recently, we have become aware of models in development, considering public-record information regarding:
  - Number of subjects at an address
  - Type of address (e.g., residential, multi-family P.O. box, associated with a business, associated with a correctional institution)
  - Amount of time since most recent recorded purchase
  - Insured's history of property ownership
  - Insured's length of residency at *prior* addresses
  - Insured's history of prior addresses and any evictions
- Great concern regarding whether these variables impede socioeconomic mobility by penalizing individuals who seek work opportunities or who need to move through no fault of their own.
- Insurers may consider territory and ownership status, if supported by data, but a consumer's premium should not increase at renewal due solely to the *fact* that the consumer moved (without consideration of *where* the consumer moved).

Recent Developments:

Public-Record Information

Consumer Behavioral Information

- **Criminal history:** Available from certain data vendors. In Nevada, the criminal history must pertain to the *insured* (not relatives or other persons) and must be *relevant to the risk of loss* for the line of business in question. Also, a person is innocent until proven guilty. With regard to ***motor-vehicle violations*** and any other criminal matters, only actual ***convictions*** may be considered chargeable.
- **Shopping history:** Nevada will not approve any variable that considers a consumer's shopping behavior apart from any related credit accounts. (For instance, the fact that a consumer obtained an installment loan for furniture may be considered, but the fact that the consumer has purchased furniture may not be.)
- **Insurance complaint / shopping behavior:** Nevada will not approve any "price optimization" model which sets rates on the basis of price elasticity of demand or a consumer's tendency to complain or shop for insurance. (See Bulletin 17-001.) In any predictive model which considers the extent to which a selected relativity will move toward an indicated relativity, only variables related to the risk of insurance loss may be considered.

Common Pitfalls:

Rate Filings Involving Predictive Models

Each of the following pitfalls may delay approval of a filing by several months!

- Failure to identify the existence of or any changes proposed to a predictive model.
- Failure to include a copy of predictive-model algorithm (may be filed as confidential in SERFF).
- Refusal to provide any model or algorithm to the Division. (If we cannot review the model document, then the model may not be used in Nevada.)
- Reference to older filings which contain obsolete predictive models (especially models subsequently revised at the Division's request), or which contain no model but references to still-older filings.
- Failure to provide the required informational items in the Credit Scoring Statement (if the company is using credit-based insurance scoring).
- Failure to provide variable-specific support. Overall model "lift charts" are not sufficient. An overall-predictive model may still contain several unsupportable categories and treatments.
- Any worse-than-neutral treatment of credit no-hits and thin files (a neutral treatment is the presumed baseline in NRS 686A.680(5)(b); we will **not** approve more adverse treatments).

Common Pitfalls:

Rate Filings Involving Predictive Models

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- For predictive models involving multivariate techniques, failure to provide any of the three layers of support:
  - **<u>Layer 1</u>: Raw Input Data:** Provide the raw premiums, losses, and loss ratios that were used as inputs in the model. Specify the timeframe to which the data apply, the jurisdictional scope (state-specific, countrywide, etc.), and the books of business (private passenger automobile, home, etc., as well as specific companies).
  - **<u>Layer 2</u>: Structure of Model:** Provide a thorough discussion of the underlying assumptions and modeling methodology and the reasons for the approaches selected. Include all mathematical formulas used.
  - **<u>Layer 3</u>: Model Outputs:** These are typically indicated relativities, which should be compared/contrasted with the selected treatments.
- Use of non-Nevada catastrophe data (for catastrophe models).
- Use of obsolete (especially pre-Great Recession) data.
- Sole reliance on countrywide experience when Nevada experience is qualitatively different.