



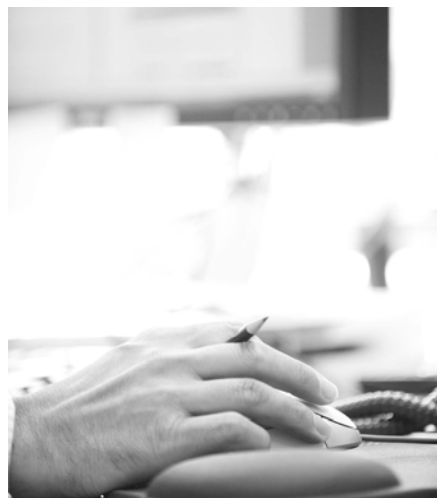
NAIC Credit Hearings

May 2010
Geoff Werner

Agenda



- Process
- Major Thoughts/Ideas
- Follow-Up
- Where Things Appear to be
Now
- Conclusion



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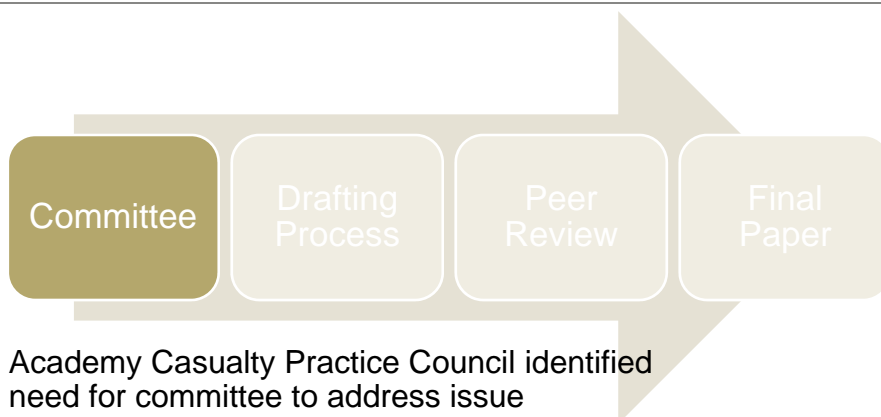
Process



- ▶ NAIC announced 4/30 hearing
- ▶ 30 days to prepare a response

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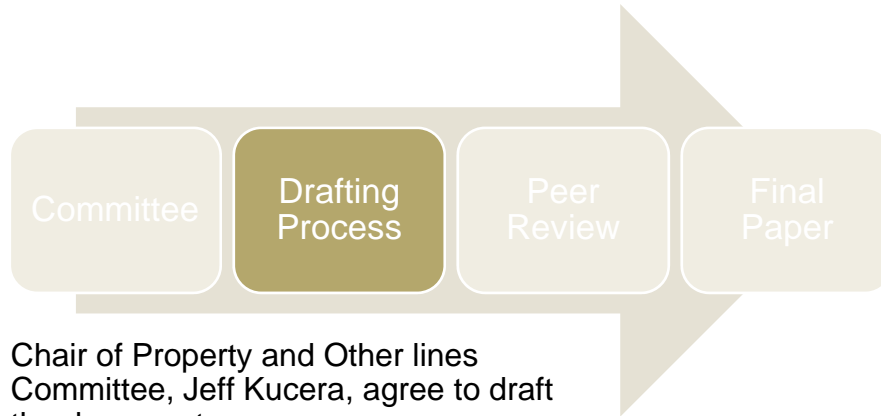
Process



- ▶ Academy Casualty Practice Council identified need for committee to address issue
 - ▶ Property and Other Lines Committee
 - ▶ Personal Auto Committee
 - ▶ Gary Josephson, Lauren Pachman

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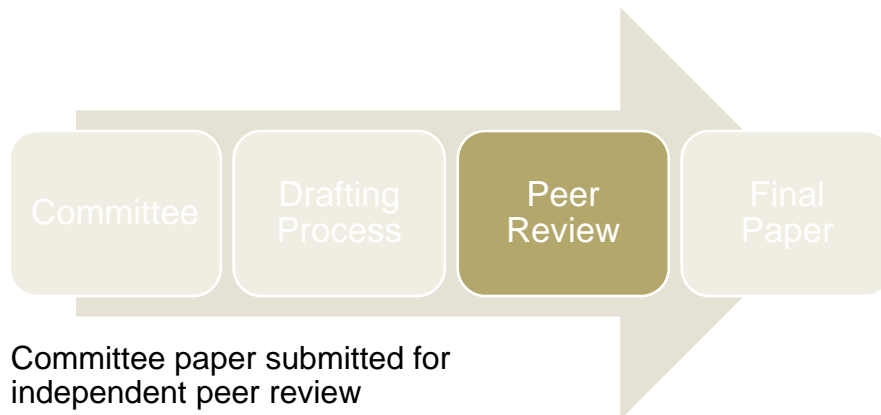
Process



- ▶ Chair of Property and Other lines Committee, Jeff Kucera, agree to draft the document
- ▶ Committee members provided input
- ▶ Several iterations/re-writes

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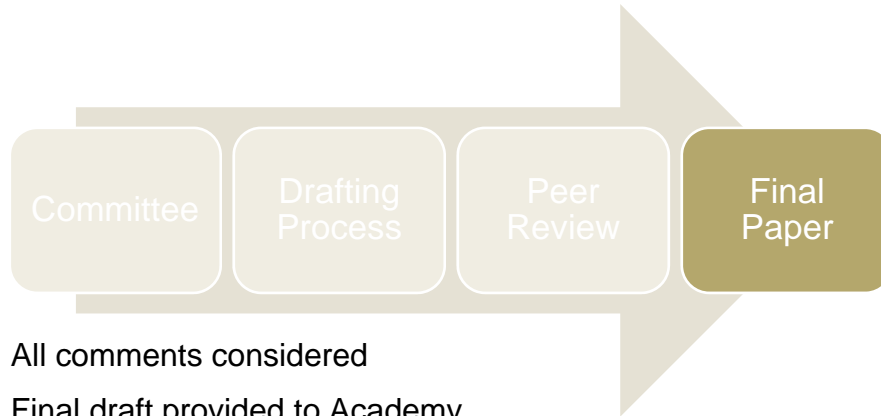
Process



- ▶ Committee paper submitted for independent peer review
 - ▶ Alice Gannon, FCAS MAAA
 - ▶ Chet Szczepanski, FCAS MAAA

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Process



- All comments considered
- Final draft provided to Academy

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Major points in paper



- What is Academy's role?
- What is a credit-based insurance score?
- How are insurers using credit-based insurance scores?
- How has the economic situation impacted premium relative to credit-based insurance scores?



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What is the Academy's role?

Public policy organization for US actuaries

- Voice of profession
- Assist the NAIC determine effect credit-based insurance scores have on insurance
- Offer NAIC assistance for follow-up research



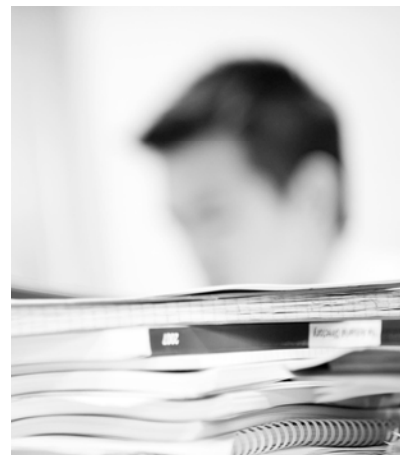
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What is a credit-based insurance score

A numerical score or ranking assigned to an insurance risk based on underlying characteristics of the risk

- Provides a relative measure of the associated expected cost
- Strong correlation between insurance scores and expected losses
- Many studies concluded statistically reliable for segmenting risks



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How are insurers using credit-based insurance scores



Using credit-based insurance scores for segmentation, rather than overall rate level

- CAS's SOP No.4, regarding P&C insurance ratemaking
 - “A rate is reasonable and not excessive, inadequate or unfairly discriminatory if it is an actuarially sound of the expected value of all future costs associated with an individual risk transfer.”
- ASOP 12, Risk Classification
 - Rates considered equitable if rate variation reflects differences in expected costs for risk characteristics
- 2001 Conning & Company: 90% of respondents use it



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Current economic conditions affecting premiums



Concern that economic conditions are causing insurance scores to worsen and, thereby, premiums to increase

- Could effect premium two ways
 - Aggregate premium
 - Individual premium
- Actuarial role is to consider such trends in analysis
 - Premium trend
 - Relativity analysis
- No quantifiable evidence of dramatic shifts



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Points of emphasis



- Credit-based insurance scores allow better segmentation and more equitable rating



- Effect of removal
 - Doesn't lower overall premium
 - Redistributes premium charged

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The actual hearing



- Three sessions
 1. Credit score vendors
 2. Industry groups like NAMIC, PCIAA, Academy
 3. Insurance company reps
- Structure of hearings
 - Presentation
 - Consumer advocates
 - NAIC questions
- Issues raised and discussed



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Follow-up comments to the NAIC



Academy responded to issues raised at the hearings

- Definition of correlation
- Publications of Actuarial Standards of Practice (ASOPs)
 - Created by Actuarial Standards Board
 - Reviewed by actuaries from government, companies, academia, etc. and other interested parties
- Percentage of premium attributable to credit



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Current status



- NAIC committee still active and exploring the issue
- Public advocates disappointed that credit is still being used
- Vendors of credit-based insurance scores are now subject to more regulation



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Key points



- Credit-based insurance scores continues to be a hot topic
- Academy educated policymakers and offered further assistance
 - Use of credit-based insurance scores is fair as correlated with expected loss
 - Doesn't affect overall premium
- Academy response took significant effort by many individuals in a short time period



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