Nelson, Angela

From: Nelson, Angela
Sent: Friday, April 29, 2016 3:02 PM
To: IN.MarketRegulation
Subject: CEJ Comments on Missouri Premium Stablization Hearing

From: Birny Birnbaum [mailto:birny@sbcglobal.net]
Sent: Friday, April 29, 2016 2:23 PM
To: Nelson, Angela
Subject: CEJ Comments on Missouri Premium Stablization Hearing

Ms. Nelson,

The Center for Economic Justice offers the following comments on "premium stabilization" practices and proposals.

It is unclear why insurers are requesting "transition pricing" today as the reasons they put forth have been around for a half-century -- large changes to base rates, introduction of new rating factors, acquisition of blocks of business. These events have occurred for decades, yet insurers never sought "transition pricing." So, it is reasonable to ask, why now?

We suggest that the answer is that insurer pricing practices have changed dramatically with big data applications and insurers pursuing less transparency to consumers in pricing to avoid complaints and related scrutiny over insurer pricing practices. If "transition pricing" had been in place when insurers implemented insurance credit scoring, public outcry and subsequent regulatory and legislative scrutiny would certainly have been much less than what actually occurred. As insurers introduce a plethora of new data sources for pricing with associated scoring models, "transition pricing" reinforces insurers' efforts to minimize disclosure of their practices to consumers and regulators.

With this background, "transition pricing" should not be permitted for several reasons. First, it creates unfair discrimination in violation of Missouri rating laws and, respectfully, the Director has no more authority to approve such unfair discrimination as he would to approve rating explicitly on race. Treating two consumers who pose the same cost of the transfer of risk differently simply because one consumer is a new applicant and the other is an existing policyholder is unfair discrimination. Insurers' attempts to explain away this unfair discrimination are without merit. Such explanations include "actuarial indications are imprecise." This argument undermines the entire rationale for cost-based rates since no rate indication is seen as reliable. If the introduction of new risk classifications produces significant rate dislocation, insurers, regulators and consumers should be skeptical of the reliability of the new factors and associated rate modeling in general -- not skeptical for one preferred class of consumers. Moreover, from a consumer perspective, large rate dislocations means insurers are saying -- we didn't know what we were doing before, but trust us, we do now. The proper response to the introduction to new risk classifications producing significant rate dislocation is greater, not less transparency.

Other actuarial rationales include lifetime pricing and mismatching expenses evaluation periods (lifetime or multi-year) with expected claim costs (the annual period the rates will be in effect.) Such actuarial gymnastics should be prohibited, not encouraged.

Second, "transition pricing" will facilitate illegal activities such as price optimization because of the high degree of granularity of insurer pricing models. "Transition pricing" is carte blanche for insurers to deviate from cost-based pricing for whatever reason they want in the guise of "transitioning" to a higher rate. What prevents an insurer from introducing new risk classifications in year zero with a three-year "transition," but then introducing newer risk classifications in year one with a new three-year transition period.

Third, "transition pricing" is profoundly anti-competitive because, due to a lack of meaningful disclosure (with such disclosure opposed by insurers who want the transition pricing). "Transition pricing" prevents a consumer from seeing his or her true cost of insurance and discourages shopping -- the goal of insurers generally and of price optimization specifically. Insurers and some regulators view "transition pricing" as beneficial to consumers because it delays full rate increases. We disagree. In competitive markets, consumers have a choice if presented with non-competitive prices. Insurance markets already suffer from competitive failures -- "transition pricing" would add to, not address, those failures. Moreover, there is no free lunch -- if some consumers are paying less than cost-based rates, other must pay more with the result that the preferred customers benefit at the expense of the non-so-preferred customers, who are disproportionately located in low-income and minority communities.

Fourth, more meaningful consumer disclosure is needed. Some suggestions include:

A. Add requirements that the declarations page of a personal lines policy show the current premium and the renewal premium and the percentage change. An additional helpful requirement would be that for any rate change greater than say, 5%, the insurer would provide reasons for the change, similar to reasons provided with adverse action notices with insurance credit scoring.

B. If "transition pricing" is permitted -- which we strongly oppose -- the declaration page disclosure should be current premium, renewal premium and ultimate premium (as envisioned in the "transition pricing" plan of the insurer) so the consumer sees what the price will be over what time frame. Reason codes for the rate increases continue to be relevant and such reason codes should be specific in naming the data sources and factors causing the increases. All of the disclosure required in this paragraph should be part of a "transition pricing" filing and subject to regulatory review and approval.

C. The Department should collect and publish a list of the data sources and uses by insurers for pricing, marketing, claims and payment plan eligibility. This involves an initial reporting by insurers of type of data, the source of the data and the type of use of the data by insurers. The Department would then compile the information and publish the compilation to facilitate public understanding and discussion over new data sources.

D. The Department should engage in regulatory big data to monitor market outcomes by collecting transaction-detail data on sales and claims. Such data collection allows for robust market analysis to evaluate the impacts of "transition pricing" -- if permitted -- as well as any other issue of concern to the Department, policymakers or consumers, including, for example, the impact on traditionally underserved communities of new data sources and risk classifications regarding prices and coverages offered and the nature of claims settlements.

Thank you for your consideration,

Birny Birnbaum
Director
Center for Economic Justice