

February 6, 2012

The Honorable Mike Hill, Chairman
House Banking and Insurance Committee
Room 404-B
11 S. Union Street
Montgomery, AL 36130

Re: HB 123, Flex-rating

Dear Mr. Chairman:

Thank you for the opportunity to comment on HB 123, sponsored by Rep. Greg Wren. I represent NAMIC, the National Association of Mutual Insurance Companies, and our association is supportive of HB 123. We encourage you to schedule the bill for a vote in your committee as early as possible.

NAMIC is the voice of the mutual property/casualty insurance industry in the United States, with companies ranging in size from a one-person farm mutual to some of the world's largest insurers. Our 1,400-plus members serve more than 135 million policyholders in every state in the country and write 52 percent of all auto policies and 43 percent of all homeowner policies in the nation.

In Alabama, NAMIC members write nearly 60 percent of all homeowner policies and over 50 percent of all auto policies. We are committed to promoting a healthy, vibrant insurance industry in the free-market environment – and to representing the best interests of our members and their policyholders.

NAMIC is a strong proponent of a reformed system of state regulation of insurance through the passage of regulatory modernization laws such as the *Property/Casualty Flex-Rating Regulatory Improvement Act*, developed by the National Conference of Insurance Legislators (NCOIL). HB 123 is based on the NCOIL model, which was overwhelmingly adopted by NCOIL in 2003 and is viewed as an interim step toward rate regulation based on an open competition system. Flex-rating allows insurers to increase or decrease a rate within the flex-band without approval from regulators. Regulators can still review rate filings.

NAMIC also is a strong proponent of reformed market conduct and financial solvency regulation to protect the interests of consumers and policyholders. Our ultimate goal is to achieve a regulatory system that befits a mature industry operating in a highly competitive marketplace.

We believe the primary barrier to fundamental reform of the property/casualty industry is price regulation of insurance rates. This belief is the cornerstone of NAMIC's agenda for change in the states. Passage of rate modernization laws such as HB 123 benefits consumers with respect to price and availability of insurance products. Insurance is an industry where less government control has been tested and found to be successful.

Some states that have enacted rating reforms in recent years have adopted the flex rating model used as the basis for HB 123. Under this system, regulators do not review a rating request if the proposed rate falls within a specified plus or minus percentage range of the existing rate. This results in a more efficient rating process for both insurers and regulators. Insurers know ahead of time that as long as their rate increase or decrease falls within a given percentage, their rate filing will not have to be adopted by the regulator. For regulators, flex-band rating means they can focus their limited resources on reviewing only those rate filings that fall outside the flex-band percentage range.

According to the National Association of Insurance Commissioners (NAIC), states that have modernized their systems have seen an increase in the number of companies doing business, with more choices, downward pressure on rates, and increased jobs. In recent weeks the NAIC released a study showing that in the two years since Massachusetts stopped setting a cap on insurance premiums, rates went down by 13%. Tennessee is the most recent state to adopt flex-rating, setting their band at 15 percent, with the support of the Tennessee Insurance Commissioner. States that have modernized have not gone back to outdated systems.

Insurance companies want to compete on price, and a flex-rating system provides the opportunity to adjust prices quickly and efficiently for the benefit of consumers. Please schedule HB 123 for discussion by your committee soon so that we can explain the positive impact the bill could have on the Alabama insurance marketplace.

Thanks so much for your time and consideration. Please let me know if you have questions or need additional information.

Regards,

A handwritten signature in blue ink that reads "Liz L. Reynolds". The signature is written in a cursive style with a large initial "L".

Liz L. Reynolds, CPCU, API
State Affairs Manager - Southeast Region