

Nevada State Legislature
Assembly Committee on Commerce and Labor
401 S. Carson Street
Carson City, NV 89701-4747

4/23/13

Sent via electronic transmission to committee at: Leslie.Danihel@asm.state.nv.us

RE: SB 114, Rate Modernization - NAMIC's Written Testimony in Support of Proposed Legislation

Dear Assembly Member Bobzien, Chair; Assembly Member Kirkpatrick, Vice-Chair; and members of the Assembly Committee on Commerce and Labor:

Thank you for providing the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to the committee for the April 24, 2013, public hearing. Unfortunately, I will be in another state at a previously scheduled legislative meeting at the time of this hearing, so I will be unavailable to attend. Please accept these written comments in lieu of my testimony at the hearing. This letter need not be formally read into the committee hearing record, but would appreciate it being referenced as a submission to the committee hearing.

NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders and writing in excess of \$196 billion in annual premiums that account for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies. NAMIC has 133 members who write property and casualty insurance in the State of Nevada, representing 36% of the marketplace.

In NAMIC's view, Senate Bill 114, Insurance Modernization, will move Nevada forward into the ranks of states that have successfully embraced the irrefutable fact that insurance consumers benefit from vigorous and continuous market competition among insurance carriers. There is a simple mindset shared by members of the insurance industry, "someday my competitor's policyholder could become my policyholder." Rate modernization stimulates this pro-consumer competition by allowing insurers to aggressively compete on one of the most important consumer purchasing decision variables – insurance rates.

NAMIC's number one public policy priority is the preservation of state regulation of property and casualty insurance through the adoption of regulatory "modernization" laws that create pro-market competition rate approval standards and administrative procedures that unshackle insurers from unnecessary administrative burdens, regulatory delays, and business costs associated with restrictive rate filing regimes, like the "prior approval of rates" system. The

ideal elements of a modernized system of regulation include: a “use-and-file” rate system for personal lines insurance; a “no-file” rate system for commercial lines; continued regulator authority to monitor market competition; and procedural and substantive due process for consumers and insurance companies. NAMIC is also a strong proponent of reformed market conduct and financial solvency regulation to create an appropriate safety-net for consumers.

Our ultimate goal is to achieve a proper balance between regulatory focus and oversight, and open market competition. To that end, we are working in partnership with the National Conference of Insurance Legislators (NCOIL), the National Association of Insurance Commissioners (NAIC), the National Conference of State Legislators (NCSL), NAMIC membership, our state trade partners, and other industry stakeholders to secure passage of regulatory “modernization” laws throughout the country, so that the federal government does not feel compelled to brush aside the historic role of state regulation of property/casualty insurance and replace it with a federally regulated system of rate modernization.

NAMIC believes that the primary barrier to fundamental reform of the property/casualty insurance industry is price regulation of insurance rates, via outdated, anti-market competition rate filing and approval regulatory practices. Enacting legislation such as SB 114 will benefit consumers in a number of tangible ways, such as by encouraging more insurers to enter the Nevada market, thus facilitating robust competition, which will compel companies to moderate their insurance rates in order to maintain or increase their market share.

States that are known to have restrictive rate filing and approval systems are at a serious disadvantage, when it comes to attracting new insurers and their stable, green-friendly, well-paying insurance jobs to the state. The South Carolina experience is illustrative of what can happen if a state goes from an overly restrictive rate regulation system to a rate modernization system. According to data provided by the NAIC, within the first four years (1997- 2001) of South Carolina’s transition from a “prior approval” system to a “flex-rating” system, the state went from having 83 personal lines insurers to 150 insurers, an 82% increase. Of course, there are no guaranties in life, but with California, a state known for its anti-competition rate regulation just down the interstate, one can be hopeful that legislation designed to promote market competition in insurance pricing could attract some insurers from neighboring states.

According to a comprehensive economic study released last year by the Insurance Research Council (IRC), states that have modernized their rate filing and approval systems have consistently seen an increase in the number of companies doing business in their state, more insurance product choices for consumers, market competition generated pressures to reduce rates, and increased insurance related jobs. The IRC study shows that in the two years since Massachusetts abandoned its antiquated thirty-plus year old restrictive rate regulation system, insurance rates went down for the consumer by 13%.

The pro-consumer impact of market competition based rate regulation is clear and unequivocal, which is why states that have adopted rate modernization systems have not gone

back to outdated systems. Property/casualty insurance is an industry where less government rate regulation and more market competition has been tested and found to be successful.

Another pro-consumer benefit of a rate modernization regulatory system, like “file and use,” is that it makes it easier for insurers to be appropriately responsive to changes in the economy and insurance marketplace. Specifically, rate modernization allows insurers to lower their rates in a competitive environment, because they can be confident in the fact that they can re-adjust their rates in a timely and actuarially sound manner, if the insurance market temporarily changes. Rating flexibility associated with rate modernization also helps promote rate stability over time for consumers by allowing insurers the opportunity to readily implement refined rating adjustments that help ensure that consumer rates are fair, accurate, and commensurate with the consumer’s current risk of loss exposure. In contrast, “prior approval of rates” regimes lock-in the established rates, and make it more difficult for insurers to provide consumers with rates that reflect the consumer’s current risk of loss exposure.

Furthermore, passage of rate modernization laws such as SB 114, not only benefits consumers with respect to price and availability of insurance products, but it also makes it easier and more cost-effective for insurers to introduce new insurance products to address emerging consumer needs and desires. Additionally, it allows insurers the ability to promptly respond to sudden pricing challenges to the insurance market, like construction services “demand surge” after a natural disaster.

NAMIC also supports SB 114, because it allows for targeted regulatory oversight of the rates filed by insurers. There is not a single provision in the bill that undermines the regulatory authority of the commissioner to disapprove a rate filing deemed to be inadequate, excessive, or unfairly discriminatory. Moreover, the commissioner retains full regulatory authority to conduct market conduct examinations of insurers and to sanction any carrier that engages in improper rating practices under the Unfair Claims Practices Act.

SB 114 is consistent with the national trend toward competition-based rate regulation and targeted regulatory oversight of rate filings. Over the past twenty years or so, forty (40) states, plus the District of Columbia, have adopted legislation moving away from strict prior approval, with 25 states having a “file and use” rating system for personal lines. Moreover, forty-five (45) of the fifty-one (51) jurisdictions have moved away from strict rate regulation for commercial lines of insurance.

Rate modernization is not just “the wave of the future” - it is the prudent pro-consumer decision of the day, so NAMIC respectfully requests that you VOTE YES ON SB 114, and give Nevada insurance consumers what they want, what they need, what they deserve . . . robust insurance rate competition.

Thank you for your time and consideration of NAMIC's written testimony. Please feel free to contact me at 303.907.0587 or at crataj@namic.org, if you have any questions pertaining to my written testimony.

Respectfully,

A handwritten signature in black ink, appearing to read "Christian J. Rataj". The signature is fluid and cursive, with a prominent initial "C" and a long, sweeping underline.

Christian J. Rataj, Esq.
NAMIC's Western State Affairs Manager