



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

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**State Insurance Commissioners to Consider Dropping Consumer Protections
in Favor of Industry-Supported Deregulation**
*Major Consumer Groups Urge Regulators to Protect Auto and Homeowners Insurance
Consumers*

The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) today urged state insurance regulators to reject a proposal they will consider later this week to deregulate auto and homeowners insurance and slash protections for consumers.

On Thursday, April 16, 2009, the Speed to Market Task Force of the National Association of Insurance Commissioners (NAIC) will vote to adopt or reject a proposal to significantly reduce oversight of auto and homeowners insurance. In an email to the members of the NAIC task force, CFA and CEJ urged the commissioners of insurance to vote “no,” questioning how regulators could even consider deregulation at the very time when the absence of effective regulatory oversight has plunged the national and world financial markets and economies into chaos.

The NAIC task force will debate a recommendation that reads, in part, “That the ... states consider whether market conditions within their jurisdictions might be favorable for a movement toward a more competitive regulatory framework...” The NAIC is considering this proposal despite the fact that the white paper that offers this recommendation has information demonstrating that the markets for personal auto and home insurance are not meaningfully competitive and that market forces alone can not protect consumers from market abuses.

Insurers have long sought approval for the deregulation of rates for automobile and home insurance despite research that shows that price regulation protects consumers from unjustified rate hikes and that the lowest price increases over time occur in states with tough price review statutes. The fact that this recommendation is included in a paper documenting the conditions that make the proposal unwise is testament to the clout of insurance interests at the state level.

“It is astonishing that the states would consider a proposal to deregulate auto and home insurance at a time when even Alan Greenspan has recognized the failure of weak government oversight of the financial services industry” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner and Federal Insurance Administrator. “Americans, struggling to make ends meet, need increased, not reduced insurance price protection by the states, especially if they are required by law or by lenders to purchase auto or home insurance,” he said.

“State insurance commissioners defend state-based insurance regulation by claiming they are tuned in to local markets and consumer issues. But, the paper and recommendations represent a startling lack of understanding by regulators of the problems insurance consumers face today when buying auto or homeowners insurance,” said Birny Birnbaum, executive director of CEJ.

A copy of the CFA/CEJ April 12, 2009 email opposing the proposal is attached to this press release.

CFA is a non-profit association of some 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

CEJ is a non-profit that advocates on behalf of low-income and minority consumers on insurance, credit and utility matters.

VIA EMAIL TO TASK FORCE MEMBERS

April 12, 2009

Dear Commissioners,

Later this week, as a member of the Speed to Market Task Force, you will be asked to vote to adopt a report and recommendation regarding the regulatory framework for personal lines insurance. We greatly appreciate the efforts of the few regulators who tried to craft a single regulatory framework for personal lines property casualty insurance.

However, we urge you to vote NO and not adopt this paper and recommendations. We ask you to refer the review of existing property casualty rate models to the Property Casualty (C) Committee.

The paper provides a detailed discussion of the market structure and absence of meaningful competition in personal lines property casualty markets and makes three recommendations.

1. Adopt as guidelines (not model laws) the two existing property casualty rating laws (file and use and prior approval) and adopt the 2000 draft revisions to the two model laws as a guideline. The 2000 revision was adopted by the C Committee, but was not adopted by the Plenary. The 2000 revision provided for file and use for rates and prior approval for forms. The existing model laws do not address policy form regulation at all. None of the three address the current issues of risk classification.

Adopting these three models as guidelines is illogical and counter productive. The two model laws differ simply by prior approval vs. file and use for rate regulation. The 2000 model has a number of other differences with the model rating laws. Consequently, it makes no sense to adopt all three as guidelines.

Further, the models address commercial and personal lines of insurance. Thus, any consideration of these three models should be done contemporaneously with consideration of the commercial lines rating model -- a fourth model law addressing commercial lines insurance -- Model 777 the Property and Casualty Commercial Lines Rate and Policy Form Model Law (Condensed) -- which is constructed as an add-on to the two existing model laws.

We respectfully suggest that consideration and action of these models is more appropriately placed with the Property Casualty (C) Committee than with the Speed to Market Task Force and urge you not to adopt this recommendation and refer the issue to the proper committee.

2. Examine issues of risk classification. CEJ and CFA have long argued that the critical regulatory issue for personal lines regulation is risk classification -- how insurers use data mining to tap detailed databases for sales, marketing, underwriting, rating and claims settlement. This recommendation is too weak and largely irrelevant because the C Committee has started to examine these issues.

3. Deregulate -- "that states consider whether market conditions within their jurisdictions might be favorable for a movement toward a more competitive regulatory framework, beginning with steps such as flex-rating (if that is a movement to more competition from a prior approval law, for example)." This recommendation never made any sense because it contradicted the discussion and analysis in the paper showing that personal lines markets were not meaningfully competitive and that market forces alone could not protect consumers from market abuses. The recommendation is particularly wrong as the nation endures a massive financial market crisis and economic recession as a result of unregulated financial products.

The NAIC jumped on the deregulation bandwagon in 2000 with its plan for modernizing insurance regulation that featured Speed to Market -- ways for insurers to get their products to markets sooner in part from less regulatory oversight. There was never any consumer demand for insurers bringing products to markets sooner or for insurers bringing ever more complicated and confusing products to market. It is time for the NAIC to acknowledge that Speed to Market should follow -- not replace -- careful regulatory oversight.

In summary, we suggest that a NO vote on the motion to adopt the report and recommendations should be easy for regulators. To do otherwise would suggest that insurance regulators are so out of touch with the realities of the marketplace that someone else should be tasked with insurance regulation.

Thank you for your consideration,

Bob Hunter, Consumer Federation of America
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