

March 14, 2019

Mr. Chairman and members of the committee,

Thank you for the opportunity to lend NAMIC's comments regarding opportunities to modernize state insurance statutes in such a way to foster healthy insurance markets that concurrently protect policyholders and drive innovation.

NAMIC is the oldest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers.

NAMIC member companies serve more than 170 million policyholders and write more than \$230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets.

To adapt insurance regulation to the ever-increasing pace of business and consumer expectations, NAMIC believes that a model modernization package should include components to address:

- 1) Electronic commerce
- 2) Removal of outdated regulatory regimes and process
- 3) Concerted Attention on Fraud mitigation
- 4) Collaborative Regulation
- 5) Recognition of Industry Investment in US Economy

Electronic Commerce:

In a world where our cell phones create nearly instant access to goods and services, days of antiquated wet signature regimes need to fall away. In the business of insurance, companies are working with their customers to deliver information and service faster than ever before. While companies should not be forced to deliver products and services by electronic means, regulatory barriers to those innovations should be removed. In this space, e-delivery of notices (including cancellation and non-renewal), policyholder information, electronic salvage and titling of vehicles, and electronic proof of insurance should all be components to a modernization package at NCOIL.



Removal of Outdated Regulatory Regimes and Process

A major responsibility of insurance regulators should be to monitor and take actions to preserve competitive markets in their states. Barriers to entry and exit of markets, over-zealous rate and form approval processes, and failure to protect confidential underwriting trade secrets are a few of the issues to address to keep markets competitive.

Some ways in which a model modernization package could drive competitive markets are:

- Rate regulation reform initiatives that move toward open competition through flex-band rating or true file and use systems.
- Elimination of policy form approval requirements
- Sunset provisions on regulatory initiatives geared toward emerging issues and data calls
- Review of the Exam system: As an example, if companies are required to annually report on solvency through risk-based vehicles like ERM (Enterprise Risk Report/ORSA/Risk Profiles); Independent Audits/Internal Audits (Model Audit Rule); Corporate Governance (CGAD) etc., then the Financial Exam process (every 3-5 years) is therefore redundant, outmoded, and should be eliminated.
- Confidentiality of Underwriting Guidelines and other Trade Secret provisions
- Product flexibility including significantly reduced notice periods in recognition of short term and usage-based insurance products
- Incentivizing companies to engage in the self-evaluative privilege or self-audit that is protected from litigation discovery maneuvers.
- Open and full underwriting freedom – regulators have every ability to evaluate underwriting and rating tools to ensure that they are not unfairly discriminatory. An arbitrary dismissal of actuarially justified mechanisms to match risk to rate will ultimately harm policyholders.

Concerted Attention on Fraud Mitigation

Fraud is a major cost driver in the United States, with increasing sophistication by offenders. Regulators should be enabled via funding and legislation to house or collaborate with equally sophisticated investigative units. Legislation to meet fraud with increased enforcement and penalty systems should be engaged in the modernization package of bills. Another way to address this issue is to ensure that legislation is not adopted to force closure of suspect claims to meet statutory deadlines – companies need the ability to robustly investigate claims.

Collaborative Regulation

There is no greater voice in the insurance industry in support of state-based regulation than NAMIC. We are committed to the locality of good regulation, and continue to advocate that our state insurance regulators are the best and most appropriate guardians of insurance markets in the U.S.



There are many spaces that state-based regulation can improve by focusing on speed to market initiatives listed above and putting focus on collaboration with other states to ease interstate commerce. One area of collaboration that may be addressed within a modernization package is reciprocal licensure of companies, adjusters, and agents.

Recognition of Industry Investment in US Economy:

It can be argued that insurance is the oil in the engine of the US economy – without it, the gears will not turn. In addition to providing risk mitigation to virtually all aspects of our economy, the industry invests in our communities as the largest purchaser of municipal bonds and one of the largest state income engines through collection of premium taxes.

By recognizing and creating statutory provisions to support this investment, an NCOIL model modernization package could amplify the industry's ability to grow and offer world class coverages to policyholders. Some ideas for implementation of this concept in a model include:

- Keep Premium taxes invested in regulation through appropriations to Departments of Insurance. Allowing state regulators to utilize this funding mechanism toward smart, strategic and risk-based regulation will allow for the most robust insurance markets.
- Create Premium Tax Offsets for Fees and Assessments. Insurers pay a significant amount of money in premium taxes to all states where they do business. It is a gross tax that is a percent of premiums written and the rates can be rather high. Any additional fees and assessments that insurers incur for their own regulation for examinations, filing fees, guaranty fund or residual market assessments - to name a few of the added regulatory costs - should be offset against premium taxes to ensure that all insurers are being treated equally. These offsets would not apply to fines, penalties or regulatory actions related to non-compliance with laws and regulations.

NAMIC applauds the committee for undertaking and investigating a broad modernization effort. We believe the outcomes could immediately and significantly improve innovation and market health in the states that translate to world class insurance services for our communities. NAMIC looks forward to working with NCOIL as the concepts of the committee's vision on this project translate into proposed language and ultimate adoption.

Sincerely,

Erin Collins
Assistant Vice President - State Affairs
National Association of Mutual Insurance Companies
804.878.6473 Cell www.namic.org