

New NAMIC Report Analyzes Financial Crisis and Cautions Against Federal Overreach

by NAMIC

INDIANAPOLIS (Dec. 17, 2008) — California insurance consumers and the state's economy could be severely harmed if proposed changes are made to the state's insurance rate approval structure. That was the message delivered in written comments to California insurance officials last week by the National Association of Mutual Insurance Companies (NAMIC).

NAMIC, in conjunction with its domestic insurer state advocacy partners, the Pacific Association of Domestic Insurance Companies, submitted comments to the California Department of Insurance opposing proposed amendments to the Prior Approval of Rates Regulation. NAMIC has 106 member insurance carriers writing business in California - approximately 23 percent of the property/casualty insurance business in the state.

"These amendments are conceptually flawed and unfairly discriminate against small- to mid-size property/casualty insurers in California," said Christian J. Rataj, NAMIC's Western state affairs manager.

Among the objectionable changes to the prior approval of rates regulations is one relating to a proposed Efficiency Standard - a formula used in the ratemaking process to determine whether an insurance carrier's rates are reasonable and appropriate. The CDI is proposing to use a formulaic insurance industry historic expense average as a means by which to evaluate the reasonableness of an insurer's business expenses and operating costs, Rataj explained.

"The idea that a simple industry average, with a proscribed standard deviation range, could fully and accurately measure the business realities for both national carriers and small- to mid-sized insurers is suspect," Rataj said. "National carriers, regional insurers, and small- to mid-sized domestic insurers all have different organizational structures, marketing approaches, and business strategies that influence an individual insurer's operating expenses.

Of particular concern are proposed amendments affecting an insurer's rate of return.

"The proposed amendments do not promote financial stability of insurers and/or the economic vitality of the insurance industry," Rataj argued. "The CDI proposed rate of return will adversely affect the industry's ability to obtain necessary capital for growth and will ultimately reduce market competition in the state of California."

NAMIC and PADIC reasoned that preventing insurers from making a reasonable rate of return could devastate California's economy. "California's financial health is inextricably linked to the vitality of the insurance industry," Rataj said, "especially in light of the fact that the insurance industry is one of the largest employers in the state, a leading sourcing of tax revenue [premium taxes] for the state's budget, and a substantial funding source for state bond projects."

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