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Comments of the Center for Economic Justice

To the NAIC Market Analysis Procedures Working Group

October 20, 2017

CEJ offers the following in response to the working group's request for comments on moving to company reporting of MCAS more frequently than once a year.

CEJ supports and strongly recommends moving to quarterly reporting of MCAS.

Starting Point for Discussion: Purpose and Goals of MCAS

In evaluating any proposal for MCAS, it is useful to start with the purpose and goals of MCAS. This is particularly important because of industry's penchant for creating new purposes over time. The purpose of MCAS is to provide insurance market regulators with data for market analysis. The purpose of market analysis, in turn, is to enable insurance market regulators to monitor consumer outcomes in insurance markets to, one, identify actual or potential market problems, generally, and two, identify actual or potential problem licensees, specifically. The uses of MCAS and market analysis are to help focus regulatory resources – whether those resources are directed towards consumer information necessary to address a market failure, an investigation into potential or actual consumer abuses or violations or enforcement and other activities along the regulatory continuum.

Benefits of More Frequent MCAS Reporting

With this understanding of the purpose of MCAS, more data – specifically, MCAS quarterly reporting instead of annual reporting – better serves regulators, licensees and consumers. As a general proposition, more data will almost always be better than less data. The insurance industry's movement towards Big Data and use of granular, consumer-specific information in marketing, sales, pricing, claims and anti-fraud efforts is graphic evidence of industry's belief that more data is better than less data.

Quarterly Reporting of MCAS offers a number of benefits for improved market analysis, including:

1. **More timely data.** Currently MCAS data is available for analysis by regulators about 20 months after the beginning of the experience reporting period and 8 months after the end of the experience reporting period. With this type of time lag, MCAS is distant historical view of licensee market performance and consumer treatment.

2. **Improved market analysis.** Quarterly reporting of MCAS means that market analysis – for a market or individual licensees – can be performed on a timelier basis. More timely analysis means less consumer harm if problems exist and the capability for more pro-active market regulation. More timely data also means greater ability to respond to legislative or executive requests for policy and impact analysis. More granular data means greater opportunities for distinguishing data anomalies from market problems.

3. **Ease/level the workload of market regulators.** With current annual MCAS reporting, all analyses of MCAS must be done annually. With quarterly reporting, market regulators can spread various analyses relying on current MCAS data throughout the year. For example, a state employing Level 1 and Level 2 Market Analyses might analyze one-fourth of its licensees utilizing the most recent quarterly MCAS.

4. **Improved data quality.** More frequent reporting means greater opportunities for data quality review and identification of outliers that might otherwise be hidden in bigger data sets. More frequent reporting means more frequent feedback to reporting companies on data quality issues, resulting in better data.

5. **Reduced Need for Special Data Calls.** With more frequent MCAS reporting, market regulators are more likely to have timely information needed when issues arise, lessening the need for expensive and less reliable special data calls.

Industry Opposition – Cost/Benefit

Industry will oppose more frequent reporting of MCAS, claiming, among other things, great cost to licensees for quarterly reporting. In response, we offer several points. First, the relevant measure is not cost alone, but cost in relation to benefit. The benefits to regulators, insurers and consumers are great. The benefits to regulators are improved and timelier market analysis. The benefits to insurers are improved market analysis resulting in more focused regulatory efforts on market problems instead of data problems. The benefits to consumers are more timely and pro-active market regulation.

Second, the incremental cost of reporting MCAS quarterly versus annually should be modest. Licensees have already written programs to extract MCAS data from their data systems. These reporting programs would need to be modified to capture quarterly instead of annual experience. As with any routine data reporting – as opposed to special data calls – initial reporting is more likely to have problems (programming errors, misunderstanding definitions) that are worked out with improved data quality over time. Since MCAS has been in place for several lines for several years, the cost of quarterly reporting will be re-writing programs to generate the MCAS reports and more frequent reviews of data before submission by reporting companies. These costs are not significant in absolute terms and are small in comparison to the benefits of quarterly reporting.

Third, there are numerous examples of quarterly – or more frequent – reporting of data by insurers, including:

- Insurers' quarterly reporting of fast track experience for most property casualty personal and commercial lines of insurance;
- The Texas Department of Insurance statistical plans for commercial lines and private passenger automobile requires quarterly reporting while the statistical plan for residential property requires monthly reporting.

Regulators' Concerns

Regulators have expressed some concerns with more frequent MCAS reporting, including more work for regulators and questions about how quarterly data would be used.

<u>More Tools, Not More Work</u>

As discussed above, quarterly reporting of MCAS does not mean four times as many Level 1 and/or Level 2 analyses. Rather, quarterly MCAS reporting means a greater ability to spread company-specific market analysis work throughout the year as well as the ability to analyze more recent market activity than currently possible with annual reporting.

Quarterly reporting of MCAS creates a greater opportunity and need for the NAIC to develop and deploy data analysis tools. With more frequent MCAS reporting, there are new and improved opportunities for comparative and trend analyses and greater opportunity and need for data visualization and analysis tools. As regulators from Wisconsin have demonstrated in recent years, these data visualization and analysis tools are available and being used.

More Training and Assistance from NAIC Analysts

The NAIC is already providing the central data collection, data quality review and data cleaning for MCAS. As with the NAIC's support for state financial analysts, the NAIC can improve the tools and analytics it provides for market analysts.

Implementation Strategy

If the NAIC decides to move towards quarterly reporting of MCAS, an implementation plan should be discussed and developed. However, the implementation strategy should not confuse the fundamental analysis of the costs and benefits of quarterly reporting of MCAS.