

CEJ Recommendations on Proposed 2016 Charges for Property Casualty (C) Committee November 11, 2015

The Center for Economic Justice (CEJ) offers the following comments on proposed charges for the Property Casualty (C) Committee distributed on November 5, 2015

Flood Insurance

The proposed charges include the following for the Catastrophe Insurance Working Group

8. *Study the potential for privatization of flood insurance and provide a report by the 2016 Fall National Meeting.—Essential*

B. *Consider collection of additional flood insurance data.*

CEJ strongly supports these proposed charges, but suggests that each be significantly strengthened. CEJ suggests and requests that the NAIC develop a legislative proposal to modernize the NFIP. The NFIP comes up for reauthorization in 2017 and there will be a variety of proposals to improve and/or modify the program. The NAIC is in a strong position to develop a proposal to move the NFIP from a direct federal insurance program towards a private sector direct insurance program with federal backstop, similar to the structure of the Terrorism Reinsurance Program. Moving coverage of the flood peril to private insurers would not only lower the cost of flood coverage by providing significant operational efficiencies, but would enhance state-based insurance regulation by moving an ineffective federal program back to state oversight. One proposal that should be examined is a requirement for inclusion of flood coverage in the standard residential property insurance policy.

CEJ suggests and recommends that the C Committee develop a proposal to improve the collection of flood-insurance related data. Specifically, flood insurance experience should be reported separately in the Annual Statement for NFIP, private voluntary flood and creditor-placed (force-placed) flood. Separate reporting of creditor-placed flood insurance is essential because creditor-placed flood is the residual market for flood insurance required by lenders. In addition, creditor-placed flood insurance should be broken out from creditor-placed home insurance in the Credit Insurance Experience Exhibit of the Annual Statement. The suggested charges set a delivery date of the Spring 2016 National Meeting in order to meet the Blanks Committee schedule for adoption in 2016.

CEJ's proposed additional charges are:

- Develop a legislative proposal for improvements to the NFIP program by the Fall 2016 National Meeting. The legislative proposal shall consider, among other ideas, ways to improve the efficiency and penetration of flood insurance coverage through greater reliance on private sector direct provision of flood insurance overseen by state insurance regulators. Essential

- Develop a proposal and recommendation to the Blanks Committee for separate reporting of NFIP, private voluntary flood and creditor-placed flood insurance experience on the state pages of the Annual Statement by the Spring 2016 National Meeting. Develop a proposal and recommendation for reporting of creditor-placed flood insurance separate from creditor-placed home insurance in the Credit Insurance Experience Exhibit by the Spring 2016 National Meeting. *Essential*

Transparency and Readability of Consumer Information Working Group

The proposed charge for this working group includes:

Study and evaluate actions that will improve the capacity of consumers to comparison shop on the basis of differences in coverage provided by different insurance carriers offering personal lines products. Review the three NAIC P/C policy simplification models . . . Examine current industry practices and state laws and regulations relevant to this topic, and then develop findings and/or recommended action items to the Committee.— Important

1. *Systematize and improve presale disclosures of coverage.*
2. *Increase consumer accessibility to different carriers' policy forms on a presale basis. The Working Group should consider all possible avenues of accessibility, including state insurance department websites, the NAIC, insurance companies and the possibility of pre-sale provision of complete policy language.*
3. *Facilitate consumers' capacity to understand the content of insurance policies and assess differences in insurers' policy forms. The Working Group should consider: 1) implementing new readability rules as suggested by the Market Regulation and Consumer Affairs (D) Committee; 2) promoting consistent, clear and logical formatting and organization of all policies; and 3) any other measures that would improve the intellectual accessibility of policy forms.*

CEJ strongly supports this charge, but we point to a glaring omission – the absence of consumer-testing to develop and evaluate the effectiveness of the coverage comparisons.

While CEJ certainly believes that better shopping tools for consumers to compare coverages across insurers will empower consumers and improve the competitive operation of insurance markets, it is necessary to test whether such information will, in fact, be used by and empower consumers and, if so, how to craft such information so consumers will utilize and understand it at the relevant times. Consequently, CEJ recommends the following addition to the proposed charge:

4. Evaluate usage and effectiveness of existing coverage comparison tools through review of existing usage data and through consumer testing.

Thank you for your consideration.