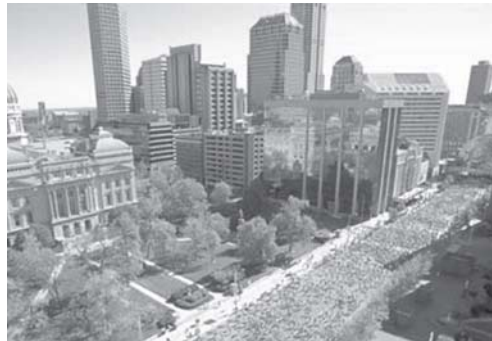


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2004 Workshop Series: Enjoy Hoosier Hospitality

You may already know about this gem of a city, but let us entice you further! Reserve these dates, June 13-16, 2004, for S.I.R.'s workshop series in Indianapolis, Indiana. Located in the mid-west, Indiana's state capital is readily

accessible to all S.I.R. members. Indianapolis provides an excellent balance of big-city offerings and small-town neighborliness. Not only does the Center City boast many fine cultural and sports opportunities, but it is home to a number of prominent insurance organizations as well. Having undergone major renovation in the downtown area recently, the 12th largest city in the nation is rich in arts and history as well as home to the world-renowned motor speedway.

Some of the city's cultural attractions include the Indianapolis Museum of Art, the Eiteljorg Museum of American Indians and Western Art and the Children's Museum of Indianapolis (the world's largest). Sports enthusiasts will be hard put to find better attractions than the Motor Speedway Museum, home of the Indianapolis 500, and the new NCAA Hall of Champions.

Indeed, the 2004 S.I.R. workshops should prove to be another memorable event and is a perfect opportunity to reunite with colleagues and enjoy a first-class city with family and friends. Our location for this meeting could not be better. The workshops will be held at the Embassy Suites Hotel, located in the heart of downtown, which features complimentary cooked-to-order breakfasts. Ten minutes from the airport by car, this site is connected via a skywalk to Circle Centre Mall with upscale shopping, including Nordstrom, Coach, Doubleday books, Disney Store, etc., and the ArtsGarden, a glass-covered haven. Situated 2-1/2 blocks from the Indiana Convention Center and RCA Dome, workshop attendees can also take advantage of fine restaurants and theatres around the hotel, as well as the nearby state capitol, Conseco Fieldhouse (home of the Indiana Pacers), the Indianapolis Zoo and many other attractions.

The S.I.R. is known for hosting relevant and timely workshops, where participants can learn from subject matter experts and exchange thoughts on important issues with peers in an interactive educational environment. Ken Marshall, with the National Association of Mutual Insurance Companies and this year's S.I.R. Vice President of Workshops, is in the process of planning the 2004 events. If you are interested in being on his committee or speaking at a workshop or have any ideas on topics that would be of value to members, please feel free to contact Ken at kmarshall@namic.org. Check the SIR web site (www.sirnet.org) and the next S.I.R. newsletter for additional information on the workshop events. Also, be on the lookout in early spring for the registration materials and notice. We look forward to seeing you in the Hoosier-friendly city, Indianapolis!

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ORGANIZATION NEWS ITEMS 2003 ANNUAL CONFERENCE/WORKSHOPS/ EXHIBIT FAIR

Evaluations, submitted by those attending, were lavish in their praise of the conference/workshop programs, speakers, food and facilities. (See Annual Conference/workshop Overview article prepared by **Diana Lee** - Incoming S.I.R. President for 2004).

Speaker Presentations – A majority of speakers who participated in the Annual Conference and Workshops have now provided, and given approval, to post their power point presentations on a “secured” section of the S.I.R. website. S.I.R. Members can access these materials through use of the following URL <http://www.sirnet.org/MembersOnlyAC03.html> Of special interest will be the Keynote Presentation by Stephen Collesano, Ph.D., Vice President – AIG, and remarks by Featured Luncheon Speaker Frank J. Coyne, Chairman, President & CEO, Insurance Services Office, Inc. (ISO).

Exhibitors - Attendees were also complimentary of the following organizations that participated in the 2003 Exhibit Fair.

A. M. Best Company
Atlantic Research and Consulting
ChoicePoint Precision Marketing
Claritas, Inc.
Marketing Leverage, Inc.
MarketStance

Mathew Greenwald & Associates
NAIC
Perr & Knight, Inc.
RoperASW
Thomson Financial Insurance
Solutions

Sponsors: S.I.R. also gratefully acknowledges the following companies, which sponsored social/meal functions during the event.

Allstate Insurance Company
A. M. Best Company

Perr & Knight, Inc.
Thomson Financial Insurance
Solutions

2004 SCHEDULE OF EVENTS

Mark your calendars now in anticipation of the following events scheduled for 2004:

Summer Workshop Series

June 13-16, 2004
Embassy Suites Hotel
Indianapolis, Indiana

Annual Conference/Workshops & Exhibit Fair

November 14-17, 2004
Grand Hyatt Hotel
Atlanta (Buckhead), Georgia

Annual Business Meeting

The 2003 S.I.R. Annual Business Meeting was held on Wednesday, November 19, 2003 at the Don Cesar Hotel in St. Pete Beach, Florida. In addition to the customary reports those attending approved the following items –

S.I.R. Board – A motion, distributed previously to all society members, to reduce the size of The Society of Insurance Research Board.

Nominations – Those nominated to serve on the 2004 S.I.R. Board.

Annual Conference/Workshop Overview

By Diana Lee, S.I.R. President

The Society of Insurance Research held its 33rd annual conference in St. Pete Beach, Fla. in November. It was a meeting full of good cheer, networking and exchanging knowledge, seeing old friends and meeting new colleagues. Speakers provided lots of insight into present and emerging challenges. It's hard to pick out a highlight or two, as each session was filled with good information and meaningful, interactive discussions.

The event began with two workshops before the conference, the first on performance metrics related to the claims and underwriting operations, along with an overview of A.M. Best Company's rating practices. This was an excellent introductory course on evaluating insurance company performance and financial statistics. The second workshop on insurance scoring covered legislative and regulatory updates as well as recent and ongoing academic, industry and regulatory research activities in this area. The use of credit history as it applies to both underwriting and marketing was reviewed by leading providers of credit scoring information, offering attendees ideas on how to use this information to target market potential policyholders. The conference keynote speaker, Steve Collesano, then opened the main event with lessons learned from his many years as research director at AIG. He was followed by a number of other sessions, where subject matter experts discussed perspectives on customer retention, underwriting, products and services, branding, customer knowledge and the regulatory environment. Luncheon speaker Frank Coyne, Chairman and CEO of the Insurance Services Office, Inc. presented a "state of the industry" address, citing financial operating results and offering his views on what the future holds.

One observation about this meeting that contributed to its success was the free and ready exchange of discussion among speakers and the audience during each session. This is not always the case for many insurance industry seminars and conferences. In this case, however, the S.I.R. crowd "clicked" very well enabling attendees to meet and spend time with new acquaintances. As an "old timer" at these meetings, this writer knows just how important it is to retain these types of relationships over the years. It's rewarding to know that some non-S.I.R.-member attendees who came to the meeting thought this was such a vital group, with good rapport, camaraderie and exchange of information, that they are now planning to become members of the organization.

Congratulations to Susan Mott of Mathew Greenwald & Associates, and Candace Curls of Claritas, Inc., who respectively chaired this year's annual conference and workshops. Special thanks go to the moderators who coordinated the panels and the speakers who gave of their time and energy to present at the workshops and

conference. As Susan said at the beginning of the conference, the S.I.R. is one of the industry's best kept secrets. Once again, the S.I.R. has proven its talents and commitment in sponsoring valuable conferences and workshops for a broad range of insurance professionals. So to those attendees who were at this meeting in St. Pete Beach, if you enjoyed it, please tell your colleagues about it and about the S.I.R. And if you weren't there, consider coming to next year's events; it would be great to visit with you again.

President's Message: Pride and Partnership

by Diana Lee,
National Association
of Independent Insurers



I am pleased and honored to serve as your president for the next year, and look forward to the challenges and opportunities this role presents. The Society of Insurance Research has been an important part of my professional career over the last decade, primarily because it has given me the opportunity to meet so many fine individuals from various disciplines in the insurance industry. When Chris Matthews, from MSNBC's *Hardball*, spoke in October at an industry function, one item he said has stayed with me. That is, a reason why people elect a certain candidate to become president is because this individual has hope. With this hope, I envision making the society a stronger and more valuable group in which we can all continue to take pride and be partners.

We not only need to work hard to make it the best society possible, but we also need to spread the word and get more people to know about our organization, to join our organization and to participate in our activities.

With that in mind, I am asking all members to share a little bit more of their time and thinking to help strengthen the society. It doesn't take much time to tell someone about the S.I.R. and to encourage him or her to join. It doesn't take long to write an article for the newsletter or our web site. It doesn't take long to send an e-mail to tell us your thoughts on how we can provide additional services or reach other individuals and groups to build a stronger membership. I, therefore, encourage all of you to share your ideas with us and to volunteer some of your time in helping out, in recruiting a new member, participating on an S.I.R. committee, writing an article, or sharing some timely news with us. So let's all have hope for a stronger and long-lasting society that we can all be proud of and continue to be partners.

Photos / Attendee Feedback



Stephen Collesano, Ph.D. (AIG)
Keynote Speaker



Speaker John Culverwell



Diana Lee giving
Presidential Address



Wall Street Panel -
Myron Picoult, Mike Puccia and Todd Bault



Outdoor Luncheon



Gary Ford provides Treasurer's report at
Annual Business Meeting.



Luncheon Discussion

Photos / Attendee Feedback



Outgoing President, Rich Nahmias congratulates Annual Conference Chairperson Susan Mott, Ph.D. on a job well done



Speaker John Wilson



Diana Lee bids farewell to Rich Nahmias.



Sharon Loren and Hank Ludington



Bob Adler receives award from Rich Nahmias

Here's what those attending had to say:

- “Excellent program”
- “Topics were extremely timely and well run”
- “I found value in all the sessions”
- “Exhibit Fair was valuable to meet prospective suppliers”
- “S.I.R. did a terrific job of combining panelists to share their different perspectives”
- “One of the better overall programs I’ve attended”
- “Great topic diversity, depth of knowledge, impressive, caliber of speakers appreciated”
- “Thanks for the great job putting together this conference”
- “Favorable impression of first conference. Very nice group of people”
- “Great initial conference for me. Good contacts created networking opportunities”
- “Nice to visit with vendors and see them involved in current industry events like this”
- “Good information”
- “One of the best seminars I’ve attended, since my affiliation with S.I.R., CPCU and the AICP. This is the first one where I attended every meeting and reception, a very good conference.”

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“Fun Facts” on Insurance and Vehicles

Listed below are some little known facts related to insurance and vehicles:

- Started by Benjamin Franklin, the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire was incorporated under a British Royal Charter in 1752. In 1792, Pennsylvania was the first state to charter insurance companies, with most other states also chartering insurance companies by 1797.

- Hartford, Conn. is the first city where an American President rode in an automobile (1902); Travelers Insurance Co. is the first company to insure against accidents (1864); and Aetna Insurance Co. was the first company to offer in-flight life insurance to Astronauts (1963).

- In 1911, Detroit, Mich. installed the first center street lines.

- The first auto seat belts were in the 1902 Baker Electric race car, and power steering first was seen in the 1903 Columbia Electric Motor Truck. The first completely automatic transmission was in the 1906 Sturtevant.

- The first speeding ticket was given to a taxi driver in New York City in 1899.

- World War II called a halt to auto production but saw the new Jeep become famous during the fighting. That Jeep became the basis for the 1948 Willys Jeepster – the first sport-utility vehicle.

- The first parking meter was installed in Oklahoma City, Okla. in 1935.

- In the 1700s, you could purchase insurance against going to hell in London, England.

- More Americans have died in automobile accidents than have died in all the wars ever fought by the United States.

- According to a 1999 Opinion Research Corporation International study on national driving habits, 1,016 participants responded that they had engaged in the following activities while driving:
11% have had a dog jumping around the car or sitting on

the driver’s lap;
12% have broken up a fight between kids with their hands;
3% have put in eye drops or contact lenses;
20% have steered the car using thighs or driven with no hands;
19% have had someone else hold the wheel; and
14% have spilled hot coffee on themselves.

- The RMS Titanic cost \$7.5 million to build; it carried a \$5 million insurance policy. It would cost about \$400 million to build Titanic today.

- The first car was stolen in St. Louis, Mo. in 1905.

- Mel Blanc – the voice of Bugs Bunny – was allergic to carrots. After a near-fatal auto accident in 1961, Blanc did his cartoon voices, including the first 65 episodes of *The Flintstones*, flat on his back, with the microphone hanging over his bed.

- Many Japanese golfers carry “hole-in-one” insurance, because of the Japanese tradition to share one’s good luck by sending gifts to all your friends when you get an “ace.” The price for gifts can often reach \$10,000.

- Benjamin Franklin invented crop insurance.

- Betty Grable’s legs were insured for \$1 million dollars, while Fred Astaire’s feet were insured for \$650,000.

- In 2001, a London insurance brokerage began offering insurance for alien abduction. A premium of \$155/year would pay about \$166,000 to an abductee (provided the abductor was not from earth) and double if the insured was impregnated during the abduction.

- More money is spent each year on alcohol and cigarettes than on life insurance.

- Flamenco dancer Jose Greco took out an insurance policy through Lloyd’s of London against his pants splitting during a performance.

- Germany was the first European country to establish a system for health insurance for its workers in 1888.

- There is a very negative attitude toward life insurance in Spain. It is considered wrong to profit from a spouse’s death.

First-Year Impressions

by Kenneth R. Marshall, Industry Knowledge Manager with the National Association of Mutual Insurance Companies

It always feels a little awkward being the new face in an established group. In such a setting, frets are not unlike the natural order of involvement for many of us. Thankfully though, most of us are also fitted with an innate drive to learn and to be involved, a drive that overrides involvement anxiety. We recognize this driving force as a fundamentally important process that enables us to grow. So, we brush aside awkward feelings and jump head first into new and different roles, embracing the opportunities for personal and professional growth. As my first year serving as a board member for the Society of Insurance Research (SIR) winds down and I reflect back, Diana (Lee) has asked me to share some of my impressions and growth experiences. Here is my lighthearted attempt to do just that.

Tap, tap, tap. “Is this thing on?” “Can the people in the back hear me?”

“What are the two things you don’t want to hear from someone you’re trapped in an elevator with?” “I’m not just a Jehovah’s Witness.” “I also sell insurance.” (Tap, tap, tap.)

Ok, I admit it. This is more than a bit of a stretch. However, reflecting on the past year working with SIR, I immediately think back to my first board meeting in Savannah, Georgia. I recall feeling that distinctly awkward ‘new guy’ twinge. Sitting at that conference table and listening closely as one-by-one each item of the meeting agenda was discussed, I felt compelled to offer my insights on those issues with which I have developed familiarity. Being the new face in the group though, I was also concerned about whether I actually had anything valuable to add. So, as I think back now to that first board meeting - feeling the gaze of unfamiliar eyes, nervously waiting for an opening to deliver some lines, wondering what if anything to say and hoping for a positive response - I am reminded of the stand-up comic, nervously tapping the microphone and asking the audience - “Is this thing is on?” “Can the people in the back hear?”

Unlike the stand-up comedian, laughter was not the reaction I was hoping to elicit. In fact, any anxiety I felt was due in part to the possibility that my input might well generate laughter. But, having taken some time before that initial meeting to review the make-up of the SIR board, I realize now that my initial apprehensions were more a function of respect and awe over the vast array of professional insurance industry knowledge and experience that was sitting around that meeting table.

The SIR board is comprised of insurance industry research experts representing some 14 different insurance companies, national trade associations, education foundations, insurance and financial services corporations and consulting firms. Individually, board members represent company executives, consultants, sales directors and managers, and strategic marketing, research, operations and planning professionals. Collectively, they represent enumerable years of hands-on insurance industry experience and a veritable wealth of insurance research knowledge and information.

While there was certainly ample reason to have felt great respect and awe for this group, any other trepidation I may have experienced quickly vanished. It didn’t take long to realize that the SIR board is not only a distinguished group of learned industry professionals, but also a very open and receptive group. My opinions and insights were encouraged from the outset. This stands out as my first real impression of SIR. And, as the old saying goes, first impressions last. This is clearly not the kind of group that shuts its eyes and ears to new ideas and opinions. New perspectives and healthy discourse are encouraged. One year later, I recognize this to be a key organizational characteristic that will serve SIR well as it explores new ways to grow and prosper.

“I Just Flew Into Town and Boy Are My Arms Tired”

So, this actuary and farmer are traveling by train. (Stop me if you’ve heard this.) They pass a flock of sheep in a meadow and the actuary says, “There are 1,248 sheep out there.” To which the farmer replies, “Amazing. Oddly enough, I know the owner of those sheep and you’re absolutely correct. How did you count all of them so quickly?” The actuary answers, “Easy, I just counted the number of legs and divided by four.” (Folks, I just flew into town and ...)

Thinking back once again to that first board meeting, and having just gotten off the plane (after an early morning departure and a couple of particularly ragged connections) I literally hit the ground running as things unfolded rather quickly. There was a rush into the hotel from my taxi, a hurried check-in at the front desk and a mad dash straight to the meeting room, baggage in tow. The group settled in and we made our way around the table introducing ourselves and relating our individual areas of insurance research focus. Perhaps my opening line that day should have followed straight from that age-old comedy line.

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“I just flew into town folks, and boy are my arms tired.” In hindsight a somewhat frazzled introduction to my first meeting was actually a great way to get the ball rolling. No time to fret about being the new person or more importantly, lack of familiarity with the organization and board protocols when you hit the ground running.

Another saving grace came from the quick realization that I was not the only new face on the board. In fact, five other new board members were also in attendance for the first time that day. Candace Curls, Senior Consultant for Claritas, Inc., Meredith Chancey, research associate for Alfa Insurance Companies; Michael Hoffman, underwriting consultant for Nationwide Insurance, Glen Westlake, research director for American Family Insurance; and Ira Blatt, principal consultant for Computer Science Corporation each joined me as new SIR board members. For those among us willing to concede to involvement anxiety, there is no better salve than the realization that you are not alone. And, in this instance, it probably kept me from resorting to the old, “I just flew into town” bit.

“I’m Here All Week Folks. Two Shows Nightly.”
How do you recognize an extrovert actuary? He looks at your shoes, not his, when he speaks to you. (Badumpbump)

So, here it is, one year later and initial trepidations have given way to excellent working relationships, a high level of comfort and hands-on involvement in targeted organizational priorities. The SIR board is clearly an engaged group. Members represent their respective employer organization with a high level of professionalism and each is excited to be a part of the organization. This genuine interest translates to a level of receptivity that nurtures involvement. Despite having logged just one year of involvement with SIR, it feels like I’ve known my fellow board members much longer. The high quality of meetings, interactions and organizational events has made my SIR experiences to date feel like an extraordinarily good personal and professional fit and an exceptionally good value for the organization I represent.

In one short year I have taken part in SIR’s two feature annual events (the 2002 annual conference and the 2003 annual workshop series), marketing committee efforts related to both events, strategic planning sessions, new member recruitment, and will (along with several other board members) serve as a moderator for the 2003 annual conference. I look forward to contributing more to the organization in these and other roles in the coming years. So, even though I won’t be here to do ‘two shows nightly folks’, I can honestly say that my favorable experiences to date have convinced me to stay on with SIR for the ‘long haul’. And my employer, the National

Association of Mutual Insurance Companies (NAMIC), whom I represent as a board member, is committed to its support of SIR as well. NAMIC recognizes the valuable professional development, industry networking, and key issue educational forums that SIR provides and intends to continue its affiliation with this important insurance research organization.

I encourage all of our members to toss aside their involvement anxieties by becoming more engaged in SIR activities. There are enumerable avenues for involvement in SIR issues and events through which all members can make an impact. Bring your valuable insurance industry research knowledge and experience to the forefront by getting directly involved with SIR. I assure you, you won’t need to tap, tap, tap your microphone in order to be heard. Contact SIR today and find out how you can make a difference.

Credit-Based Insurance Scores: Forecasting Claim Performance Through the Use of Credit Data

By Lamont D. Boyd, CPCU

Fair Isaac and Company, Inc.



In the past several years, consumers have become increasingly aware of credit risk scores — the scores, based on information in a consumer’s credit report that lenders use in their decision-making processes. A credit risk score is a number that quantifies a consumer’s credit risk at a specific point in time. Fair

Isaac Corporation provides predictive technology for decision-making solutions to the financial services industry and builds mathematical models to develop FICO® scores, the industry standard for credit risk scores. These scores are available from any of the major credit reporting agencies (Equifax, Experian and TransUnion).

These models evaluate current credit data on an individual consumer to produce a score that predicts the likelihood that the consumer will become delinquent on a credit obligation in the near future. Credit risk scores

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range from an estimated low of 300 (most risky) to a high of approximately 850 (least risky). They are used by financial institutions and retail credit grantors for all kinds of decisions: whether or not a consumer gets a credit card, what kind of an interest rate a consumer might qualify for on a mortgage loan, or whether or not a consumer's credit limit is raised.

Credit-Based Insurance Scores are Different

A different kind of a score is used by many leading insurers to help evaluate the risk of insurance applicants and policyholders. This score, generically called a credit-based insurance score (different credit bureaus have different names for the scores they sell), is also based on current credit report data and calculations using models built by Fair Isaac.

However, there are important distinctions. The credit risk models are built to predict the likelihood of delinquency or non-payment of a loan. The insurance scoring models, by contrast, are built to predict the likely loss ratio relativity on any particular individual. A loss ratio is the ratio of losses to premiums of an applicant or book of business and is generally expressed in terms of percentages. For example, if an insurance company paid \$700 in claims for a policyholder that paid \$1,000 in premiums, the loss ratio for that policyholder would be 70 percent.

Loss ratio relativity, on the other hand, is the ratio of an individual or subgroup's loss ratio to that of the entire group. Loss ratio relativity is generally expressed as a decimal. For instance, if a policyholder had a loss ratio of 140 percent and the overall population's loss ratio was 70 percent, the policyholder would have a loss ratio relativity of 2.0, representing a loss rate for the individual of two times the average loss rate for the overall population. Fair Isaac insurance scores range from the 100's to the 900's: the higher the score, the lower the likely loss ratio relativity and the better the risk.

To develop the credit-based insurance score models, Fair Isaac follows rigorous statistical methodology and gathers data on millions of consumers and multi-millions of dollars in claims. In the model development process, advanced technology is used to empirically determine the correlation of hundreds of credit variables (for example, the number of 60 day delinquencies a consumer has in his or her credit file), with later claim performance.

The variables determined to be most predictive of future losses are used to build the models, which are then deployed through the bureaus, where the consumer credit data resides. The final models forecast the likely loss ratio relativity of each new applicant at the time of

application, or in the case of a policyholder, at the time of renewal. To ensure higher accuracy, separate models are built for the major types of both property insurance and auto insurance.

Use of Insurance Scores

Insurance scores are also used in different ways than a credit grantor would use a credit risk score. When an insurer makes an evaluation, a person's insurance score is one of many factors. For example, most insurers use an insurance score along with a motor vehicle report, loss history report, home condition and other kinds of information in their decision-making process.

Scores are not used in isolation to set pricing or to deny insurance to an individual. They are often used to streamline resource use and to reduce the costs of ordering information. For example, a company may set a policy that determines that it will not order motor vehicle or loss history reports on new business applications above a chosen high score, thereby saving a large sum of money. Or, the insurer may determine it needs to focus on more careful underwriting review and collect additional information on applicants who fall below a certain score.

In fact, for over a decade insurers have used credit-based insurance scores because of the benefits they bring. Among the advantages of insurance scores:

- **Consistency.** Insurance scores are usually applied in an automated environment, in combination with the insurer's rules and other criteria. All applicants are thus treated according to a consistently applied standard.
- **Fairer decisions.** Insurance scores are completely non-discriminatory and use no data on gender, nationality, ethnic group, address or income. Only credit-related information is included, and its use is governed by the Fair Credit Reporting Act (FCRA).
- **Better decisions.** Insurers can better forecast future performance on one individual or an entire book of business leading to improved management and higher quality books of business.
- **Efficiency.** Streamlined operations and better use of underwriting and other resources allow insurers to pass savings along to policyholders. Also, applicants and policyholders enjoy the added benefit of faster decision-making.

Insurance Score Correlation

One objection raised to the use of insurance scores in underwriting decisions is, "I can see why a score based on credit data can forecast credit performance, but I don't see how it can forecast insurance claim performance." If one looks at it from the perspective of responsibility, however, it is perhaps not surprising that poor credit reflects a greater degree of claims risk, and vice versa. Individuals who use credit wisely also may take better

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care of their automobiles and homes and, in general, behave with greater prudence. It should be noted that the predictive power of the scores is not claimed to be based on a causal relationship, but rather that it is based on empirical correlation, and this correlation can be validated. The consistently high performance of the insurance score models has been validated many times, in fact, both by Fair Isaac and by a number of independent organizations.

The real proof of their efficacy, however, is that hundreds of leading insurers in the US and Canada who use Fair Isaac's credit-based insurance scores continue to see improved results. As insurers continue in their quest to improve operational efficiency, better manage their book of business, and offer the best value to their customers, more and more of them are listening to what insurance scores have to say.

Lamont D. Boyd, CPCU, is Insurance Market Manager for Global Scoring Solutions at Fair Isaac Corporation. In his position, Mr. Boyd is responsible for the identification of client and partnership opportunities that make use of Fair Isaac's credit-based insurance scoring technology for the insurance industry. Prior to joining Fair Isaac in 1993, Mr. Boyd served 19 years with a major property and casualty insurer. He is a member, and past chairman, of the CPCU Society's Information Technology Section.

Consumer Credit Information Above and Below the Radar

*by Dale M. Halon, CPCU, CIC National Account Executive,
ChoicePoint Precision Marketing*

When consumer credit scoring was first introduced to the personal property and casualty insurance industry, most people were skeptics. Ten years later there is no question practice has changed the industry. Underwriters, product managers and actuaries were the first to see the hard evidence. This group has been the change agent, trying to convince regulators, producers and the public a well-designed scoring algorithm will produce repeated and predictable measures of future profitability.

These facts have long been debated and are likely to continue to be debated for the foreseeable future. The reason for such debate is obvious. The availability and affordability of personal insurance is one of the major charges to be regulated by state insurance departments. The mere fact of a score being a determinant of acceptability or price of the coverage places insurance-based consumer credit scoring as a bright blip on state regulators' radar screens. The use of consumer credit information in personal insurance, therefore, is under the purview of two sets of rules: federal regulation through the Fair Credit Reporting Act (FCRA) and state regulation through the mandates of state departments of insurance.

Marketers of financial services products had known long before the insurance industry that consumer credit information was a good predictor of risk. They also learned that consumer credit information can be used equally as well as a determinant as to who will be most likely to buy their products. Direct marketers of credit cards, personal loans and mortgages have used credit-driven models to predict who will respond to their solicitations, who will buy their product once initial inquiry has been made, who will stay on as customers, who will most likely buy a second product, etc. Insurance companies have much more recently discovered this versatility of the same source of information for similar purposes. The fact is consumer credit information is the most predictive source of information available. There is no other source of dynamic behavioral information available.

FCRA was recently amended in 1998 to allow the use of consumer credit information for the marketing of insurance products. While it was not forbidden prior to the change, there were conflicting opinions in the industry and in the regulatory environment in the amending legislation. Today's FCRA allows a process of what is defined as "prescreening" in the act. Prescreening means looking at a person's credit report to determine whether the right characteristics are there to predict the desired behavior (i.e., response or conversion). As long as the marketer follows the rules outlined in FCRA and presents a firm offer to the customer whose credit report was looked at, the practice is perfectly legal. It is also quite efficient. Marketers must also disclose to the consumer, by way of accompanying notice, that their credit history was used as a basis for the offer being made.

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The purpose of this article is not to debate the rights and wrongs in the use of consumer credit in personal property and casualty insurance. The purpose is to point out the differences in the use of credit information so underwriters can better understand how marketers can seem to fly below the radar and for marketers to understand why underwriters are taken to task by state regulators. The regulatory oversight of the states toward still uncharted use of consumer credit in pricing and underwriting is far different than the federal oversight marketers come under in their use of the same information.

While there are differences in what the information is and can be used for as well as the regulatory oversight between underwriting and marketing uses, there are other key differences in how consumer credit data is used in the industry. For example, most pricing and underwriting decisions have to be made instantly. If an agent is providing a quote for their prospective client, they must have access to a decision immediately. If a person wants a quote over the Internet, the quoting engine must have access to whatever data it needs to calculate an accurate quote. However, if a marketer wants to get a list of people who meet certain criteria based on their credit history, the urgency is not quite the same. The marketer can submit their criteria to a list provider along with other criteria (e.g., age or marital status) and wait a few days before they get their answers. Underwriting uses require significant automation and integration of information retrieval systems and processing systems whereas marketers can perform many of their tasks without adding the overhead of data processing projects to their internal IT divisions. The result is marketers can be much more nimble than underwriters in executing their business tactics.

When a consumer's credit history is accessed, FCRA requires that a record of the inquiry be posted on the person's credit record. The purpose is one of disclosure for the benefit of the public. Consumers should be able to later see who has had access to their information. The posting requirement must be met regardless of the reason the credit report is accessed. If you have ever looked at your own credit report, you will notice several types of inquiries. The main types are inquiries resulting from the consumer seeking a personal benefit such as applying for credit, insurance or a job. These are the types of inquiries that are sometimes used to calculate insurance scores or other types of credit-based scores because they are in some way indicative of the consumer's behavior. Consumer-initiated inquiries are termed "hard inquiries" by the credit bureaus. *(NOTE: Only consumer-initiated credit inquiries are used for insurance scores. Redundant credit inquiries from automobile finance companies or mortgage companies are also excluded from insurance scoring.)*

Inquiries that are posted to a consumer's credit history are usually promotional or account management in nature. Companies that service revolving credit cards most often do account management inquiries. Basically they are

verifying that the consumer's credit still meets their criteria since new charges might be occurring on a regular basis. These same types of inquiries could be done by insurance companies prior to renewal.

Promotional inquiries are the type created by marketers of insurance or other financial loan services. Again, these inquiries have not been made as a result of a consumer request. They are done purely for prescreening purposes where the purchaser of the credit history is looking for consumers who meet a specific criterion so they can mail them an offer for their product. Promotional inquiries are sometimes referred to as "soft inquiries." Soft inquiries are not usually used as part of a credit-scoring algorithm because they do not reflect any action by the consumer.

The main purpose behind FCRA is to protect consumers. Congress was concerned people would not be able to see their credit reports or not have a chance to have input as to what history is kept on their record. FCRA established rules whereby consumers can dispute decisions that have an adverse effect on them. The law states that, if a consumer is denied the benefit for which they applied (i.e., credit, insurance or employment) due to information on their credit report, the consumer is entitled to full disclosure. There are also a variety of steps that credit bureaus, past creditors and the entity denying the benefit must go through to protect the consumer.

These protections only apply to consumer-initiated credit history transactions and not to promotional inquiries posted by marketers. If a marketer does not select a name to market to because of items on a consumer's credit history or the omission of some criteria, there is no disclosure or other action required of the marketer.

Current trends in the use of credit scoring for underwriting versus marketing also vary. State regulators continue to press insurers to justify their credit scoring practices. Many companies have developed their own custom scoring processes while others still rely on the commercial versions supplied by information providers. The challenge remains the same, however, for all underwriters. Several states have requirements as to how the scores are used, what variables from credit histories can be in a score and the weight any particular variable can affect a score.

Underwriters also face a challenge from their distribution system. Agents continually question individual scores, company actions, company rules and the process by which they either bind coverage or provide quotes since credit-based insurance scoring is used by the vast majority of companies. Agents on the firing line have to explain the company actions to consumers. Consumers are also much more educated since local newspapers, TV news shows and consumer activists are weighing in on the subject.

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Insurance marketers are not faced with a similar array of public and regulatory intervention. Looming on the horizon, however, are the sunset provisions to FCRA. Congress will be dealing with the expiration of many of the provisions of FCRA that allow marketers to use consumer credit histories. There have also been some attempts by state regulators to seek control of marketing use of credit scoring since they feel it impacts the public in their states. No doubt we will all be reading more about these two issues in months to come.

The differences in the use of consumer credit histories between underwriting and marketing are, although related, very broad. It is important for both disciplines to understand the pressures and restrictions the other must consider as they go about their business. The landscape will no doubt change in the future, but not likely enough to change the fundamental differences.

Insurance Research Council: Continuing the IRC Research Mission

by Diane Epstein, Research Analyst, IRC

Since its inception in 1977, the Insurance Research Council (IRC) has served as a valuable source of public policy research for the insurance business. The IRC is a division of the American Institute for CPCU and the Insurance Institute of America and is located in Malvern, Pa. It was founded under the aegis of property-casualty insurers and associations, and executives from these organizations serve on its Advisory Board. This board focuses the IRC's research agenda by continually surveying the insurance business and by raising research questions that address key public policy issues. Over the years, IRC reports have been published on important and timely insurance topics, including auto injury claiming behavior and compensation, vehicle safety, insurance fraud, catastrophic losses from natural disasters, uninsured motorists, workplace safety, accuracy of motor vehicle records, insurance costs for small businesses, and urban insurance.

The IRC does not lobby, nor does it advance specific reforms or legislative initiatives. This stance allows the IRC to remain an objective source of research for policymakers, insurers, regulators, and the general public. IRC findings have been featured in hundreds of national and local news reports, including those of *CNN*, *CBS News*, *The New York Times*, and *The Washington Post*, as well as in leading insurance trade publications. IRC research has also been presented at many important industry events, most recently at the 2003 Casualty Actuarial Society meeting in New Orleans and at the 2003 ISO/NICB Insurance Fraud Conference in Boston.

Perhaps the most unique and enduring IRC contribution is its auto injury closed claim research. The latest report in this series, *Auto Injury Insurance Claims: Patterns in Treatment, Cost, and Compensation, Countrywide*, includes information on the medical treatment, economic losses, and insurance payments associated with auto injuries. The study also examines trends in auto injury claim handling and attorney involvement. Insurers that contributed to this report represent 58 percent of the private-passenger auto insurance market, and they submitted data on more than 70,000 closed claims. This report will be published in December 2003. A companion study to this research report surveys recent auto-accident victims about their injuries and gathers information about how auto insurance interacts with other forms of auto accident reimbursement, such as health insurance. This report will be published in January 2004.

IRC research reports are available free of charge to IRC members; non-members can purchase them by contacting the IRC by phone at (610) 644-2212, ext. 7569, or by fax at (610) 640-5388. Also, the IRC Web site, www.ircweb.org, contains news releases and information about IRC publications and events. A summary of recent IRC research projects appears below:

Insurance Fraud. High-profile fraud cases and insurance scams attract much media attention, but more subtle forms of insurance fraud are harder to measure, and therefore often escape notice. For several years, the IRC has gauged public tolerance for dishonest behavior regarding insurance claims and applications. Surprisingly, one-third of Americans believe that it is acceptable to pad an insurance claim in order to compensate for their deductibles. Nearly one in five believe that it is acceptable for insurance applicants to deliberately underestimate the number of miles they drive. These and other findings of this survey are summarized in the report *Insurance Fraud: A Public View*.

Auto Insurance Costs and Claiming Behavior. In addition to the closed claim and consumer panel research mentioned previously, the IRC publishes another research series on auto injury claims. *Trends in Auto Injury Claims, 2002 Edition* examines auto claim costs and frequencies nationwide and by state from 1980 to 2000 (territorial data are also included for years 1995 to 1997, aggregated).

Motor Vehicle Records. In the heated debate over the use of credit scoring as an underwriting tool, motor vehicle records (MVRs) have often been cited as a fairer resource with which to evaluate auto insurance applicants. To test the accuracy of MVRs with regard to traffic convictions, the IRC analyzed more than 50,000 traffic violations in selected states. The data show that MVRs are often incomplete sources of information on drivers' traffic violations, particularly for convictions of out-of-state drivers. Findings of this research appear in *Accuracy of Motor Vehicle Records: An Analysis of Traffic Violations*.

Insurance Data Pop Quiz: Thomson Financial Insurance Solutions

by Reilly Cobb, Thomson Financial

Who was the 2002 market share leader in commercial multi peril? Is that market expanding or contracting? Who was the CMP profit leader?

Searching, sorting, looking for the obvious and for the not so obvious are all vital activities in the professional researcher's daily work. Getting accurate information quickly is critical to answer the hundreds of questions that insurers, markets planners, bankers, investment bankers, reinsurers and consultants pose every day.

It has been said that the Devil is in the details, and in insurance financial data, more than any other regulated industry, this is true. There are so many avenues to pursue. The financials are important, but so are the textual notes and the management discussion. It can be a challenge to make sense of it all without a tested and trusted information partner.

Thomson Financial Insurance Solutions (TFIS) is the source researchers turn to for the timely and complete insurance information answers. Since its inception in 1991, TFIS has been the industry leader for statutory financial research solutions. Today most of the major insurers, banks and consulting groups depend on TFIS for their insurance research and analysis.

The foundations of our products are the annual and quarterly statutory filings the insurance companies make to the National Association of Insurance Commissioners.

We move this information into the users hands earlier than any other source. In our online products we supplement the statutory content with e-news (The Daily Insurance Reporter) as well as M&A and public company data. We include analytical software tools that are unmatched in their power and flexibility, and the TFIS "high touch" support team ensures that customers have access to all the resources they need to get their projects done right.

To learn more about how TFIS products can empower your business, please visit us online at www.insurance.com

Answers: In 2002, with a 7.3% share and \$2.183 billion in direct written premium, Travelers Property and Casualty Group was the CMP national market leader. The market is growing – in 2001 net premiums were \$32.8 billion, and in 2002 they grew to \$37.4 billion, a 14% increase. The writer with the largest profit, nationally, was the Hartford Fire Group which had \$884 million in CMP net operating gains.

TFIS products are available in multiple presentation formats which include native Web and Windows based reporting tools, spreadsheet based retrieval options and Excel based analytic models, all supported by a team of dedicated industry professionals.

Are Low-Income Drivers High Risk—Or Victims Of Adverse Selection Induced By Pay-Per-Car Premiums?

by Patrick Butler, Ph.D.

Insurance Project Director
National Organization for Women

S.I.R. remains impartial/unbiased and does not assume a position with regard to controversial issues either political, social or business related. The views expressed in articles are those of the designated author(s) and are included because of their potential interest to readers. This article represents the views of the author and not the Society of Insurance Research.

- **Statement of the purpose and importance of the research**

Although forty-eight states make automobile insurance mandatory, tens of millions of cars still go uninsured. Why? Because automobile insurers charge the highest premiums in low-income zip codes. It is important to study this decades-old public policy dilemma. The purpose of this research is three-fold: 1) Set out the facts of the high premiums; 2) Consider the current explanation; 3) Propose a new explanation (and remedy).

- **Review of the literature**

1) Facts of high premiums. Smith and Wright (1992) call attention to large differences nationwide in the average premiums car owners in the same risk class pay in urban areas. Using averages, however, conceals similarly large ranges in premiums within most localities. These local ranges are very apparent in state insurance department buyer's guides but have received little academic notice. Jaffee and Russell (2001, page 200) reproduce the California guide for Berkeley, which lists annual premiums charged by 32 companies for a given customer profile. Although the highest is four times the lowest premium, the authors focus attention on how changes in law have affected average premiums in California.

Harrington and Niehaus (1998) examined variation in average insurance costs across zip codes within four Missouri urban areas. They report that, relative to the other urban zip codes, those that contain higher Black (and concurrently lower-income) populations average 36 percent more liability claims and 48 percent more collision claims per vehicle year. They conclude (page 441): "percent minority population is correlated with omitted variables that increase claim costs."

2) Current explanation. Insurers claim that cost-correlations with categories of cars defined by data such as residence zip code, credit score, prior insurance, home ownership, military rank, driver record, and driver sex distinguish cars with "high-risk" and "low-risk" drivers.

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In fact, these correlations do not evaluate drivers at all on a statistically valid driver-mile basis. Instead they are much more likely to be the result of selective groupings of cars that—on average only—are driven more miles or fewer miles. We will argue that it stretches credulity to maintain that a supposed distribution of drivers by any measure of individual skill, care, or safety would resemble the observed positively-skewed distribution of cars by annual mileage.

3) New explanation. In 1968 Vickrey listed obvious economic harms from charging automobile insurance as a cost of ownership rather than an operating cost, such as (page 471): “The premium structure thus has the general effect of promoting excessive use of a given stock of cars and undue stinting on the ownership of cars.” Vickrey noted the harm to car makers, but neither he nor any other economist has pointed to any feedback effect that stinting on ownership may have on premiums. The first description of the effect on premiums from the insurance incentive to stint on ownership and pile more miles on fewer cars was published in a report to the Texas Legislature by Butler (2000).

- **Planned methodology and preliminary results**

1) Factual information. We have previously shown that the positively skewed distributions of drivers and cars by annual miles resemble the distributions of drivers by annual accident risk which a number of authors have derived from large sets of multi-year driver records and fitted to gamma curves. Similarly shaped distributions of insured cars by premium size are suggested by preliminary observations on insurance department buyer’s guides. We will use market-share data to estimate these distributions. What the similarity suggests is that the underwriting process of setting premiums by categories based on correlations with insurer’s costs per car is crudely responding to the average mileage of the categories chosen.

2) Current explanation. Insurers claim that cost-correlations with categories of cars defined by data such as residence zip code, credit score, prior insurance, home ownership, military rank, driver record, and driver sex distinguish cars with “high-risk” and “low-risk” drivers. In fact, these correlations do not evaluate drivers at all on a statistically valid driver-mile basis. Instead they are much more likely to be the result of selective groupings of cars that—on average only—are driven more miles or fewer miles. We will argue that it stretches credulity to maintain that a supposed distribution of drivers by any measure of individual skill, care, or safety would resemble the observed positively-skewed distribution of cars by annual mileage.

3) New explanation and remedy for high premiums. Drivers who need to economize on insurance now have no choice but to share insured cars and to take less-driven cars out of the risk pool. But these two actions constitute adverse selection by drivers against the pool by adding miles without premium to it and by taking more premium than miles out of the pool. In low-income zip codes, where many drivers economize these two ways, the resulting high premiums intensify the adverse selection. To end this premium spiral, Texas passed the cents-per-mile choice law in 2001. It authorizes insurers to offer the vehicle-mile as the alternative exposure unit to the current car-year unit for driving coverages.

Insurer resistance to this remedy will be analyzed in terms of adverse selection in middle and upper income areas against current risk pools that would be induced by competition from risk pools using the vehicle-mile exposure unit.

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Consumer Research: Change Will Do You Good

by Sandy Theile, Research Administrator
with State Farm Insurance Companies

Several years ago Sheryl Crowe sang a song entitled: “A Change Will Do You Good.” But some recent changes in our economy and our industry have not done us good. These changes have resulted in dwindling research budgets and doing more with less. It seems certain that change will continue to challenge researchers in the insurance industry.

State Farm has seen some changes in its consumer research area. There’s an emphasis on offering value-added insights and implications rather than reporting just data and percentages. Also, we are to focus on proactive work in addition to the projects we are asked to do on behalf of our various internal clients and to devote resources to higher-valued projects. **How are we to balance the added demands placed upon us while maintaining a high level of service and providing quality research?**

Last year our department at State Farm developed a tool to evaluate projects that met these revised standards. Any individual or work team approached to undertake a new project is now expected to assess the project’s value by asking certain questions that are known as the Project Acceptance Factors. From this original list, different units within our department selected the questions that were most relevant to their work and devised a method for incorporating them into their day-to-day business decisions.

Below is the complete list of “Project Acceptance Factors.”

Purpose

What is the purpose of the request/project? Is it legally mandatory or in response to litigation or regulation?

Does the request/project align with Enterprise, Department, Division, and Unit goals?

Request/Project

Is the project/request redundant to other efforts either within or outside of our department?

Outcome

What business scope (enterprise-wide, corporate only, zones only...) will be impacted by the project/request? Will the outcome have a long-lasting or deep-reaching effect on the enterprise?

What is the client’s commitment to take action as a result of the project/request? Will business decisions be made as a result of this project/request?

Does the request/project allow us to contribute not only to the “what?” (data collection), but to the “so what?” (insights) and the “now what?” (implications to State Farm)?

Department

How soon can we provide results of the request/project? Are the resources available in our department to handle the project/request and meet/exceed client expectations?

What degree of control will we have? At what point in the process is our involvement requested? For research projects, do we have control of the research design and methodology?

Do we possess the knowledge/expertise needed to handle the project/request? If not, do we want to develop the knowledge/expertise? Is there another area outside of our department that is more appropriate to handle the project/request?

Are there existing data that would meet a substantial portion of the project/request?

What will it “cost” us in terms of associates’ time and out-of-pocket expenses? Is the value of the results reasonable relative to the cost to our department and the enterprise?

Will the project/request enhance our department’s brand/image?

Are there collateral benefits such as personal development or opportunity to gain insight into a new area/process?

Will undertaking the request/project help to develop or maintain a close working relationship with a particular department?

Client

Who is the client? Who else is involved with the request/project?

How soon does the client need the results of the request/project?

What alternatives are there for a client if we are unable to do the request/project?

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A few units in the department crafted a point system to prioritize certain questions, assign numeric values to responses, sum the responses, and set a numerical threshold to determine which projects to accept. Another unit established a committee of three unit members who meet weekly to discuss the work recently requested and using selected project acceptance factors decide which projects to decline based on available resources.

Our consumer research unit felt that while those methods might work well for their respective units, we preferred a method allowing more flexibility. We have empowered our employees to make their own decision regarding project acceptance after providing additional guidance. As a learning tool, we discuss projects we declined and why they were declined at periodic unit meetings.

Here is the consumer research unit's catchy and condensed form of the Project Acceptance Factors:

Primary Factors

Control

What degree of control will we have? At what point in the process is our involvement requested? Do we have control of the research design and methodology?

Impact

What business scope (enterprise-wide, corporate only, zones only...) will be impacted by the project/request? Will the outcome have a long-lasting or deep-reaching effect on the enterprise?

Alignment

Does the request/project align with Enterprise, Department, Division, and Unit goals?

Secondary Factors

Commitment

What is the client's commitment to take action as a result of the project/request? Will business decisions be made as a result of this project/request?

Cost

What will it "cost" us in terms of associates' time and out-of-pocket expenses? Is the value of the results reasonable relative to the cost?

Client

Who is the client? Who else is involved with the request/project?

As researchers, we traditionally focused our attention on research methodology and not as much on the impact our research results had on the organization. Now as we employ project acceptance factors, we are challenging ourselves to assess the business value of the work we do.

While dwindling research budgets may be outside of our scope to change, we can change how that budget will be utilized and what projects can be done under that budget.

Sheryl Crowe was right. Change can do good for the companies who utilize consumer and market research and the researchers who rise to meet the challenges that change evokes.

The Case Against Independent Insurance Consumer Advocate Agencies

by Diana Lee, National Association of Independent Insurers

This article represents the viewpoint of the NAI and not the Society of Insurance Research.

Introduction

This paper discusses the impact of independent consumer advocate agencies that are intended to represent insurance customers in various states. In general, there is no evidence to show that these offices are effective or efficient. Instead, they are redundant to the role of state insurance commissioners and to consumer divisions that already exist within insurance departments. In addition, states have enacted insurance laws whose main purpose is to protect consumers. Given that insurance departments currently provide services to aid individuals, and at no cost, and there are specific laws and other resources already in place to help them, there is no need for an extra bureaucratic layer that costs taxpayers and policyholders additional money.

History

Over the years, some states have established insurance consumer advocate agencies as an additional safeguard to protect the residents of these states. Ten jurisdictions currently have some type of office intended for this purpose: District of Columbia, Florida, Georgia, Kentucky, Maryland, Massachusetts, Rhode Island, South Carolina, Texas, and West Virginia. While some agencies' role is not specific to insurance, the overall objective is to represent the interests of consumers. Consumer advocate offices vary in terms of the state department that supervises them. Some are housed within the Department of Insurance (Florida, Kentucky, Maryland and West Virginia); others are separate as they fall under the realm of the Attorney General's office (Massachusetts and Rhode Island) or are independent state agencies (District of Columbia, Georgia, South Carolina, and Texas). Nevada and New Jersey had independent consumer advocate offices at one time, but these were abolished in 1995 and 1994, respectively.¹

Rationale Against Consumer Advocate Offices

Three of the above jurisdictions mentioned, Massachusetts, New Jersey, and Texas, have among the most restrictive rate regulatory laws in the nation.²

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The insurance commissioner in each of these states has a very significant role in setting or approving rate changes proposed by personal lines insurance companies. In this sense, consumers already have an advocate, as one of the primary functions of the commissioner is to ensure that policyholders in the state are charged rates that are “not inadequate, excessive, or unfairly discriminatory,” and that they receive insurance products and services suitable to their individual needs.

The property/casualty insurance industry highly supports initiatives to educate and assist consumers on matters related to this business. Besides the state insurance commissioners who are there to represent the public, most insurance departments have consumer-oriented divisions, as well, that provide a whole host of services to the public at no charge. These services include providing insurance information through brochures and rate comparison guides, handling inquiries, helping people understand and purchase insurance, and investigating and resolving consumer problems and complaints. Furthermore, most states already have unfair insurance practices acts or unfair claims settlement practices acts that describe those activities that are considered unfair. If insurers are found in violation of these acts, they often are subject to punishment, which usually includes penalties and fines. Court decisions also have made it possible for a policyholder or claimant to sue an insurer for violating unfair claims practices acts through private causes of action under the consumer protection statutes of the states in which the actions typically arise.

There is no evidence showing that separate consumer advocate offices benefit the public in terms of making insurance more available or more affordable. In states such as Massachusetts and Rhode Island, where the advocate programs are under the Attorney General, personal lines insurance rates remain among the highest in the nation. While the number of auto writers in these states has been growing, the number of homeowners writers has been dropping slightly. The high insurance rates and the decline in companies show that a consumer advocate program has little or nothing to do with whether or not insurance customers receive low premiums or obtain suitable coverage.

With respect to insurance rate filings, the extra layer created by an outside consumer advocate office simply results in a longer approval process. This is corroborated by responses obtained from an NAI membership survey on insurance department rate and form filing practices conducted in 2000 and repeated in 2001. Comments made by NAI member companies in response to filing delays caused by consumer advocates include:

- “Rate increases have to be reviewed by consumer advocate, holding up the review process.”
- “Insurance department seems to be in competition with the consumer advocate office, with the industry in the middle.”
- “(There is) slow consumer advocate intervention.”

New Jersey is one state that had an independent consumer advocate’s office; this program was abolished in 1994, as it was seen to be more detrimental than beneficial in advocating insurance customers’ rights. Two specific examples describing the negative effect a separate advocate unit can have pertain to the disapproval of insurers’ filings that sought rate reductions in this state. The first one resulted in several months of delay before consumers could finally pay lower rates. The second one also created such a long delay that the insurer had to withdraw its lower price offering as the loss experience on which the filing was based no longer applied; thus, policyholders did not reap any premium savings at all in this instance.

There are additional expenses in establishing and operating independent consumer advocate agencies. In the case of Georgia and South Carolina, state funds are appropriated to support these offices. Revenues flowing into these funds typically come from the taxpayers. More commonly, assessments against insurance companies are allocated to create and run an outside agency; this method occurs in the District of Columbia, Massachusetts, Rhode Island, and Texas. Insurer assessments are usually passed on to the policyholders in the form of higher premiums.

The amounts budgeted or assessed to operate consumer advocate offices vary by state. For example, in Massachusetts,³ the amount assessed against personal auto insurers and to be used by the Attorney General for the purpose of operating a consumer advocate program must be sufficient to produce \$1.5 million for the commonwealth. During 2001-2002, the Office of Consumer Affairs in Georgia was to have received nearly \$5 million in total funds.⁴ Assessments against the insurance industry in Rhode Island to create an initial fund covering the Attorney General’s expenses as consumer advocate were \$50,000,⁵ while South Carolina’s Division of Consumer Advocacy is appropriated \$450,000⁶ annually. Clearly, the residents of states with independent consumer advocate offices are supporting these units without receiving any type of meaningful benefit.

Conclusion

In conclusion, the establishment of a separate consumer advocate agency is not only unnecessary as existing state laws already protect the public, but they are redundant to consumer functions performed by the insurance department and they produce additional financial burden to both the public and insurers. Independent consumer programs serve only as an additional bureaucratic layer that creates delays in the rate filing review process. Legislation to form such agencies, which is usually politically motivated, would be duplicative, expensive and would add nothing positive to regulating the industry or benefiting the public. In those states where separate agencies exist, it is strongly recommended that they be dissolved; the funds used to support them should be dedicated instead to expanding the consumer affairs operations within state insurance departments.

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(Footnotes)

- ¹ The abolishment of the New Jersey Department of the Public Advocate resulted in certain duties being transferred to the New Jersey Department of Banking and Insurance.
- ² Personal lines rates are set by the state commissioner in Massachusetts. The regulatory law in Texas is a flex-rating system, whereby companies may deviate off State Board of Insurance rates; rates outside the 30 percent band are subject to prior approval. Insurance companies must have their auto and homeowners rates approved by the New Jersey Department of Banking and Insurance prior to using them.
- ³ Massachusetts Annotated Laws Chapter 26, §8F (2002)
- ⁴ Georgia Act 411
- ⁵ According to Rhode Island CRIR 02-030-060, an initial fund of \$50,000 was to have been established through assessments made against the insurance industry effective January 1, 1979.
- ⁶ South Carolina
202 S.C. Acts 66, for the fiscal year beginning July 1, 2002.

Photos / Attendee Feedback Continued



Attendee interaction with the speaker



Speaker Bob Adler



Panelists - Gerald Zimmerman, David Snyder,
and Wesley Bissett



Featured Luncheon Speaker,
Frank J. Coyne (ISO)

MEMBER NEWS

It is a pleasure to introduce and welcome the following new S.I.R. Corporate and Individual Members.

New Corporate Members:

Company – **Conseco**

Members: Renee Wood
Mike Columbus
Renee Graves

New Associate Corporate Member:

Company – **Mathew Greenwald & Associates, Inc.**

Members: Mathew Greenwald, Ph.D.
Susan Mott, Ph.D.

New Individual Members:

Anne Bailey Berman	Chadwick Martin Bailey, Inc.
Al Birch	Harco Insurance Company
Cheryl Demaio	TIAA-Cref
Polly A. Eppley	Capital Group
Dean M. Filrelli	American Family Ins. Group
Thomas Icatar	Guideone Insurance
Matthew Josefowicz	Celent
Emily S. Kranis	Marsh USA, Inc.
John List	Frankenmuth Mutual Ins. Company
Lisa Murman	Main Street American Group
Marcy Updike	JHA, Inc.

Good Tidings of Great Joy

For those who may have wondered why Candace Curl (S.I.R. Vice President of Workshops) was not present during the November Annual Conference, she was busy with a more important event – the care of her twin sons, James Graham Thornton, six pounds, five ounces and Ashley Wyatt Thornton, six pounds, eight ounces, born on November 5 – James at 12:38 PM and Ashley at 12:39 PM.



Congratulations and best wishes to Candace and her family from all of her friends in The Society of Insurance Research.

(Informatively, Candace was busy coordinating arrangements for the annual conference workshops until shortly before the birth of her twins.

Our last phone conversation ended abruptly when she indicated she was beginning to have contractions.)



MEMBER NEWS

In Memoriam

It is with a great deal of sadness that we report the death of **Benton A. Sifford, Jr.** who passed away in May of this year. Ben was the sixth President of S.I.R. and served as President in 1976. Ben Sifford was one of a small group of industry leaders who conceived and helped organize The Society of Insurance Research in 1969-70. He was employed by The Fireman's Fund Insurance Company at the time and was Vice President of Government and Industry Affairs at the time of his retirement from Fireman's Fund in 1979. Following his retirement Benton was involved with, and held office, in numerous civic, social and governmental organizations. His wife, four children and two grandchildren survive him. Ben is remembered by those who had the pleasure of knowing him as a man with great foresight and high principles.

PUBLISHERS STATEMENT

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