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National Association of Independent Insurers

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Statement of the National Association of Independent Insurers to the Nevada Senate Committee on Commerce and Labor in Support of SB 12

February 21, 2003

The National Association of Independent Insurers (NAII) is a property/casualty insurance trade association with more than 700 member insurance companies. There are 186 NAII member companies doing business in Nevada. NAII member companies are responsible for 47% of the personal lines insurance premiums written in Nevada.

Automobile and homeowners insurance rates in Nevada are subject to the insurance commissioner's prior approval. Under existing statutes, an insurance company may not increase or decrease its rates by any percentage until the rate change is filed with the Division of Insurance, the Division reviews the filing and the Insurance Commissioner gives her approval to the change.

There are four significant problems with the current prior approval system.

First, because of the inherent delay that comes with the need to submit, review and approve rate changes, there is a time lag between the rates that an insurer is charging and the rates that it should be charging. An insurance company's decision to increase or decrease rates is based on the insurer's analysis of what rates are needed to cover losses. But in the time it takes to submit, review and approve rate changes, the insurer's analysis is often out of date by the time the increase or decrease can be put into effect.

Second, prior approval hinders competition. An insurer that sees a marketing opportunity is not allowed to put its new pricing program into effect. The insurer, unlike other businesses, has to wait for regulatory approval prior to putting a price change into effect. Often by the time a price change is approved, the marketing opportunity is gone and consumers who would have benefited from the insurer's new pricing program lose out on the chance to get more attractive insurance products.

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Third, prior approval discourages an insurer from lowering its rates. Under prior approval, insurers are often hesitant to lower their rates. An insurer that thinks are losses are decreasing is reluctant to lower its rates because if it turns out that the insurer misinterpreted the loss trend, there is no certainty that the insurance commissioner will approve a correction in rates in a timely fashion. The safest course is not to take action to decrease rates. Consumers are the losers in this situation.

Fourth, prior approval wastes state resources. The existing prior approval system requires the Division of Insurance to undertake and complete the prior approval process for every rate change, no matter how minor. The Division's resources that are devoted to the review and approval of minor rate changes could be directed to other regulatory responsibilities.

SB 12 addresses the problems in the existing prior approval law, without making a radical change to the existing law.

It is important to emphasize what SB 12 does not do. SB 12 does not take away the insurance commissioner's authority to disapprove insurance rates. And SB 12 does not allow an insurance company to use rates that are excessive, inadequate or unfairly discriminatory.

The essence of SB 12 is timing. SB 12 affects the timing of the commissioner's review of a range of rate changes. However, SB 12 does not affect the basic authority of the commissioner to regulate automobile and homeowners insurance rates.

SB 12 would allow an insurance company to put an average rate increase or decrease of up to 7% into effect without first obtaining the insurance commissioner's prior approval. But the insurance commissioner would retain the authority to disapprove the rate change if the commissioner determines that the change violates the Insurance Code's rating standards. The bill requires the commissioner to review any rate change within the 7% band as soon as practicable.

In addition, SB 12 gives the commissioner the power to rescind the bill's 7% flex rating band if the commissioner finds that the market is not competitive, that insurance is not readily available, or that an insurance company requires closer supervision.

NAII believes that SB 12 is good public policy and that the bill delivers benefits to Nevada's insurance consumers. There are five reasons for our support of the bill.

First, SB 12 will make Nevada's insurance market more competitive. The structure of the automobile and homeowners insurance markets already shows a good deal of competition. There are 157 private passenger automobile insurers and 107 homeowners insurers doing business in Nevada. However, these companies are restrained from vigorously competing on rates by the restrictions of the prior approval law. SB 12 will allow insurers to more aggressively compete against each other within the bill's 7% flex band. The higher level of competition will benefit consumers.

Second, SB 12 will moderate rate changes. Because of the requirements and the delays of the prior approval system, rate changes tend to be relatively infrequent, but when they come, they are very significant. The experience of flex rating in other states is that flex rating moderates the level of rate changes. A flex rating law helps to avoid the jolt of major rate changes. This helps consumers to work insurance rate changes into their household budgets.

Third, SB 12 will encourage insurers to lower their rates. Because the bill allows immediate rate changes within the 7% band, an insurance company will be more willing to take action to lower rates. The insurer will have the security of knowing that if the rate decrease was too great, rates can be adjusted without going through the prior approval process. The environment which encourages insurers to compete against each other by lowering their rates helps consumers.

Fourth, SB 12 will lower insurance costs. The preparation, submission and defense of rate filings under the prior approval system add to insurers' administrative costs, which are then built into the rates that insurers charge their customers. SB 12's movement away from strict prior approval for all rate changes will reduce insurer administrative costs which will lower the cost of insurance.

Fifth, SB 12 makes a positive contribution to the effort to resolve Nevada's budgetary problems. The Division of Insurance's review of every rate change results in agency costs which are paid by Nevada taxpayers. SB 12 would allow the Division of Insurance to redirect its resources to other important responsibilities, such as monitoring insurer solvency and regulating insurer claim practices.

Nevada auto and homeowners insurance rates have been increasing in recent years. The key to lowering insurance rates is to address the rising cost of insurance claims. SB 12 does not address the causes of insurance losses, so the bill is not the ultimate answer to concerns about increasing insurance rates. However, SB 12 still is an important reform that merits enactment because the bill creates a more efficient, a more reasonable and a more competitive regulatory environment that benefits Nevada consumers.

NAII urges the Committee to approve SB 12.

Respectfully submitted by:

Samuel Sorich

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