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July 19, 2024

Mary Kwei, Associate Commissioner
Market Regulation and Professional Licensing
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, MD 21202

RE: Proposed Draft Bulletin – "Permissible Application of Underwriting Standards When Deciding Whether to Cancel, or Refuse to Underwrite or Renew a Risk"

Associate Commissioner Kwei,

The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to provide comments about the proposed draft bulletin distributed on July 8, 2024, regarding the Administration's view as to the permissible application of underwriting standards by property and casualty insurers in deciding whether to cancel, non-renew, or refuse to underwrite a risk.

NAMIC is the largest property and casualty insurance trade association in the country, with nearly 1,500 local, regional, and national member companies who write more than $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of business insurance markets.

While the proposed draft bulletin professes to simply affirm the Administration's longstanding position, we believe its implementation as written represents a change and would present significant challenges for carriers. We agree with the stated importance of actuarially sound, adequate rates, as well as the related rating rules and underwriting guidelines our members apply in our shared efforts to best serve Maryland consumers, but we disagree with the proposed resolution to stated confusion about when a rating rule covers a risk.

All carriers use models, scores, and factors to help understand and write risks that are best matched to the consumer seeking coverage. It is critical at the outset to understand that the mere presence of rates for each variable in a filing does not automatically render a risk as favorable. Underwriters adopt a holistic perspective, examining the risk seeking coverage as a whole. Underwriting and rating risks is a delicate balance of scientific analysis and artistic evaluation, not a simplistic check-the-box exercise. Risk assessments must take into account a comprehensive range of variables with each element contributing to the broader risk profile in distinct ways. Carriers may file rates for risks they may not have a large appetite to insure because the exposure may be incidental to a risk they *do* want to insure – for instance if something represents a minor portion of an otherwise acceptable risk, the carrier might decide to accept that increased exposure - that *does not* mean the carrier wants every customer who specializes in that type of risk. Being forced to accept risks on account of needlessly narrow readings of rating rules will require carriers to withdraw rates and be more restrictive for customers they would otherwise consider insuring.

Carriers apply underwriting guidelines and standards based on a multitude of factors, some of which include appetite, loss ratio, economic factors, and legal issues. These dynamics are constantly changing, and carriers use their guidelines to make appropriate adjustments to remain fiscally strong and able to pay losses as contracts promise. If carriers are not allowed to exercise underwriting guidelines according to their own experience, book profile, and risk assessment, it will be far more difficult to remain financially solvent. Underwriters within carriers play a crucial role in safeguarding the interests of both the insurance company and its policyholders; by carefully evaluating and discerning changing risks, they strive to maintain a resilient and sustainable book of business for the carrier to service, ensuring long-term viability, reliability of coverage promises, and financial success for all stakeholders.

Carriers account for legal, regulatory, and compliance requirements in the development of all their products – as multivariate models and algorithms grow in sophistication and complexity, it is important to understand that there can be combinations of rating factors that yield a result a carrier would be actuarially justified in declining to write, even though there is enough information in the rating manual to rate the risk. Carriers are also mindful of interactions between factors in a multivariate model. In some cases, rating factors may also interact with factors not used in rating, which we understand to be permissible under the Maryland Insurance Article. We are concerned that the bulletin will force carriers to act in the exact opposite manner of its apparent intent – by reducing the precision and accuracy of rating plans in order to comply.

For instance, in the bulletin's example, if a carrier rates for type of construction (wood or brick) ***and*** distance to a hydrant, that combination might be okay for brick homes more than 1,000 feet from a hydrant, and it might be okay for wood homes more than 1,000 feet from a hydrant but less than 5 miles from a fire station, but it would not be okay for a wood home more than 1,000 feet from a hydrant and more than 5 miles from a fire station. Requiring manuals to account for ***every*** possibility will make them significantly more lengthy and difficult to understand, adding hundreds if not thousands of pages, which carries a cost while providing no additional benefit to consumers or the Administration.

It is also unclear from the bulletin whether carriers would have to file amended rating plans and policy forms to add exclusions before implementing updated guidelines that may be necessitated by the bulletin. Additionally, the proposed draft bulletin raises questions regarding lines of business where rates are not required to be filed – would the Department apply similar requirements in those circumstances? It is further unclear whether a company can cancel for a number of losses contemplated by a rating plan, but not necessarily the specific type and number of losses when different surcharges are included for different types of losses in said rating plan. For instance, rather than one page listing rates for "0, 1, 2, or 3 fire losses", "0, 1, 2, or 3 non-weather water losses", and every other type of loss, would carriers be expected to also include every possible combination of different losses? Such an exercise would add significantly to the length of the rating manual with minimal benefit to anyone involved.

Conclusion

We respectfully request the Administration withdraw or amend the draft proposed bulletin to clarify and address the issues raised above. At a minimum, we request additional opportunity for dialogue and consideration of NAMIC member concerns prior to further publication or adoption of the draft proposed bulletin.

NAMIC members strongly believe that the use of more factors in the underwriting and rating of policies enhances accuracy to benefit Maryland consumers as insurers are better able to match rate to risk, charging premium commensurate to the risk of an insured loss – the essence of insurance fairness. Policyholders benefit from risk-based pricing as insurers compete for business and ensure that lower-risk policyholders are not unfairly forced to subsidize higher-risk policyholders. The use of rating factors that enhance accuracy should be embraced, not discouraged by oversimplified and inflexible regulatory interpretations of rating rules and underwriting guidelines. Those rating factors should also be responsibly and continuously considered and validated for accuracy, credibility, and objectivity by insurers, actuaries, and policymakers. The removal or rigid limitation on how carriers apply predictive factors to satisfy stated regulatory concerns would do nothing to reduce the overall cost of coverage and would necessarily increase reliance on other remaining factors, reducing accuracy and making coverage less affordable for all Maryland residents.

Thank you for the opportunity to provide comments. We look forward to working with you moving forward on this and other Administration initiatives to best ensure that property-casualty coverage is available to residents of Maryland at a rate that matches their risk of loss, something we believe can be best achieved through a system predicated on and sustained by fair and equal treatment, using objective standards of risk assessment for every applicant and policyholder.

Sincerely,

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