DIFI - Arizona Credit Prima Facie Rate Hearings - 2025/03/27 08:07 MST - Transcript

Attendees

Arvin del Rosario, Birny Birnbaum, Brooke Lovallo, Gail Flannery, John Euwema, Kaylee Cheyne, Mary Kosinski, Tom Zuppan, Tom Zuppan's Presentation

Transcript

Tom Zuppan: If you ever come out a little

00:05:00

Tom Zuppan: Good morning. Can anybody hear me?

Birny Birnbaum: This is Bernie. I can hear you.

Tom Zuppan: Okay, Bernie, I can't hear you, so I got an audio problem on my end. I'll need to rectify that for the speakers. Hang on one second.

Tom Zuppan: Okay, Bernie, try again.

Birny Birnbaum: Can you hear me now?

Tom Zuppan: Yes, I can. Thank you very much.

Birny Birnbaum: Okay, great.

Tom Zuppan: We'll start at 9:00 a.m. So, just wanted to test everything out then.

Birny Birnbaum: Thank you.

Tom Zuppan: Thank you.

00:15:00

Tom Zuppan: Good morning everybody. my name is Tom Zupin. I'm with the Arizona Department of Insurance and Financial Institutions. we're here today to go over four different hearing notices and orders associated with the primapacia rates for life, disability, unemployment, and property. the first one on the meeting notice is for the primacial rates associated with life. Each of these hearings is going to last a half an hour. So this one starts at 9:00 a.m. and then we'll conclude at 9:30. There'll be a 15minute intervent or intermission and then we'll have the next one starting at 9:45.

00:20:00

Tom Zuppan: all the documentation, the orders and the report by the actuary are available on the DIY website. there are links to that within the original notices and if you have any need for the links just let me know and we can provide I expect these will be short. There is the ability to submit comments in writing to the department I believe in the order here. if I can scroll it. on that one you can submit comments to public comments at difi.az.gov in writing and I would encourage you to do so.

Tom Zuppan: These hearings are being recorded and transcribed and will be available 3 days after the closure today. And so with that if I'll scroll down to in the case of life, this is our order. We do not at this point have an effective date. We're taking comments in regards to the effective date. hopefully we can have these issued within at least 90 days The closure of the comment period just informally is going to be 30 days. and so it at I believe that would be April 26 or so. Okay.

Tom Zuppan: And with that, I want to go ahead and offer the opportunity for anybody to provide comment. I know we have one gentleman in the queue right now that wish to provide comment. Bernie,...

Tom Zuppan: if I have to There you go.

Birny Birnbaum: Yeah. ...

Birny Birnbaum: are you able to hear me?

Tom Zuppan: Yes, we can hear you.

Birny Birnbaum: So, my name is Bernie Berndom. I'm with the Center for Economic Justice. It's a consumer organization. so our comments are that the commissioner should adopt lower I guess it's the director,...

Tom Zuppan: Let's see.

Birny Birnbaum: pardon me, the director should adopt lower primmaacia rates than proposed by the consultant. As I'll explain, a reduction of 30% in single premium rates is more reasonable and justified than the proposed 20% from the consultant.

Birny Birnbaum: Further, it's unclear what basis the consultant used to propose an increase in the MOB rates given that the amount of MLB premium written is so small that one or two claims can skew the results. I'll make five points in support of these recommendations. First, consumer credit insurance markets are characterized by The presence of reverse competition and mechanics of primmaaci rate regulation require the commissioner to select primacy rates at the low end of a range of reasonleness for rates. Reverse competition is defined by the NIC means competition among insurers that regularly takes the form of insurers buying with each other for the favor of persons who control may control the placement of the insurance with insurers.

Birny Birnbaum: Reverse competitions tends to increase insurance premiums or prevent the lowering of premiums in order that greater compensation may be made to persons for such business as a means of obtaining the placement of business. In these situations, the competitive pressure to obtain business by paying higher commissions to these persons overwhelms any downward pressure consumers may exert on the price of insurance, thus causing prices to remain higher than they would otherwise. So, this is clearly what's happening in Arizona.

Birny Birnbaum: insurers are charging primoacia rates and failing to file for downward deviations even when their loss ratios are far below the loss ratio standard. one or more insurers are failing to stop using an upward deviation despite a reduction in losses that make the upward deviation unnecessary and unjustified. Despite loss ratios for credit life in the low to mid30s, actual earned premiums in 2023 were over 15% greater than earned premiums at primacial rates. This means that long after mortality rates have fallen from pandemic levels, one or more insurers continue to use an upward deviation.

00:25:00

Birny Birnbaum: A second reason to select the low end of the range of reasonleness for credit insurance rates is that insurers suffer no harm from low primacy rates while consumers suffer harm from excessive primacial rates. Selecting a primacy rate at the low end of the range of reasonables doesn't harm insurers because they have the ability to file and charge rates higher than the primacy rates if their experience justifies such higher rates. In contrast, the primacial rate that is too high will lead to excessive charges because credit insurers won't file for lower rates to meet the loss ratio standard. So I can illustrate that easily. Let's assume we have three insurers A, B, and C each writing 1 million in premium with loss ratios of 30, 50, and 70% respectively.

Birny Birnbaum: And for sake of illustration, let's use a single premium rate of $1 per 100 of initial indebtedness This means average losses of 30, 50, and 70 cents per 100 furners A, B, and C respectively. In our example, the industry average loss ratio with primapaci rates is 50%. So the first scenario is no change in primmaaccia rates. Insurer A will charge the primacial rate that is excessive for that insurer and will produce a loss ratio of 30% much less than the standard for reasonleness. Insurer C will file a deviation for a higher rate to realize the 50% loss ratio while insurer B will use the primacial rat rate to realize the 50% loss ratio.

Birny Birnbaum: In scenario two, the primacial rate is lowered by 40% to 60 cents per 100. insurer A will still charge the primacial rate, but realize a loss of 50%, meaning the loss Insurers B and C will file for upward deviations that enable them to reach the 50% loss ratio standard. The point here is that if you're going to heir, you should heir on the low side because insurers won't suffer because they can file for upward deviations. A third for selecting a primacial rate at the low end of the range of reasonleness is that the loss ratio standard is a minimum and not a target and not a ceiling.

Birny Birnbaum: The loss ratio standard is applicable to individual insurers and not to the industry in The regulation states that the reasonable standard is satisfied if the insurers premium rate develops a loss ratio of not less than 50% for credit life and not less than 60% for credit disability. Primacy rates should be established to ensure these standards are met. The fourth point is that the proposed rates are excessive for several reasons. First is that the consultant made errors that erroneously inflated the primacial rate. First, the consultant errored by increasing incurred losses by a loss adjustment factor.

Birny Birnbaum: The reasonable stand the reasonleness standard is defined as an insurer's premium shall not be excessive in relation to the benefits provided under the Benefits are amounts paid on behalf of and to borrowers that is claims plus claim adjustment expense. The credit insurance regulation states an insurer may satisfy the reasonable standard if the insurers's premium rate develops a loss ratio not less than 50 for credit life and 60 for disability. The regulation defines the actual loss ratio as incurred claims divided by earned premium at rates in use not incurred claims plus claim adjustment expense.

Birny Birnbaum: Similarly for the definition of primapaci adjusted loss ratio is incurred claims divided by earned premiums at primmaacia rates not incurred claims plus claim adjustment expense. In my 35 years of working with credit insurance as a regulator and analyst I've never seen loss adjustment expense added to claims to calculate the loss ratio for credit life or disability. The consultant also aired by equating at primmaacia rates with the loss ratio standard. While it is reasonable and necessary to analyze the loss ratio at primmaacia rates, it's equally important to examine loss ratios at actual premiums. The primacial rate regime is a tool for rate regulation is not the rate standard or the The reasonleness standard refers to the actual loss ratio.

00:30:00

Birny Birnbaum: By failing to compare the loss ratios, the consultant failed to take into account that unjustified ongoing upper deviations would skew the analysis. In 2023, according to data from the credit insurance experience exhibit, the overall actual credit life loss ratio was 35.8 while the loss ratio at primo facial rates was 42.2. The consultant correctly excluded 20 and 21 experience as that experience is not relevant for expected experience in the years the rates will be in effect. In my work in other types of insurance, I've seen for example insurers excluding pandemic experience and rate filings for private passenger auto insurance. So if we add the 2023 data, we then have loss ratios at primmaacia rates of 30.9 41.0

Birny Birnbaum: 0 36.7 and 42.2 for 2018 19 22 and 23 respectively. A selection at the low end of the range of reasonleness would be an expected loss ratio with current primacial rates of%. And yield an indicated rate reduction of 30%. And the last reason for selecting primmaacia rates at the low end of the range of reasonleness is that the loss ratio standards are too low to meet the statutory reasonable standards. If we have evidence from contractual liability policies supporting debt cancellation and debt suspension products, which are functionally equivalent to credit insurance.

Birny Birnbaum: Those products, if you look at the filings that have been made, not only in Arizona, but in other states, they indicate a loss ratio of at least 70% as the reasonleness standard. While we're not suggesting that director change the reasonleness standard, the point is that it should spur the director to select the prime rate at the low end of the range of reasonleness. The Arizona credit insurance directed the director to consider other rate components including reasonable general and administrative expenses, reasonable acquisition expenses, reasonable creditor compensation, investment income, premium taxes, license fees, assessments, and reasonable underwriting profit and contingencies.

Birny Birnbaum: Loss ratio standards of 50 and 60% leave 50 and 40% respectively for all expenses other than claims. And of course included in that remainder is claim adjustment expense. Credit insurance is not an expensive product to market or The largest expense, often equal to or greater than claims, is lender compensation because of reverse competition and not because lender expenses remotely approach this cost. The NIC CI credit insurance experience exhibit data show commissions and other lender compensation of 34.2% of net written premium for Arizona credit life.

Birny Birnbaum: This is far more than any reasonable accounting of the costs incurred by lenders in presenting the credit insurance product to Further, lenders would benefit from the sale of credit insurance even if they received no commission or compensation. Lenders benefit from the sale of credit insurance by virtue of having their loans protected with the loan protection costs borne by the borrowed. These benefits include the avoidance of debt collection costs and debt payment delays, far outweighing the cost of offering the credit insurance to Reducing lender compensation to no more than 10% would increase the loss ratio standard for reasonables.

Birny Birnbaum: All again, all of these reasons, we urge the director to reduce the single premium credit life primacia rate by 30% and…

Birny Birnbaum: leave the MLB credit life rates unchanged. And I'm happy to answer any questions.

Tom Zuppan: Thank you,…

Tom Zuppan: Do you have your comments in writing and could you submit those to the department at the email referenced in the notice? 30 days it would be at the April 26th.

00:35:00

Birny Birnbaum: I'm sorry. What's the due date for the comments? Is there any benefit to submitting them sooner?

Tom Zuppan: You may submit them at any time within that time frame.

Birny Birnbaum: Not to speed up the process, will it? Okay.

Tom Zuppan: Thank Is there anybody else online or in person that would like to make comments? If not, that will conclude this hearing on the life or the credit life disability primapacia rates. our next hearing will take place at with regards to credit disability. Yes.

Birny Birnbaum: Quick question, will you be closing the Google Meets or…

Birny Birnbaum: just leaving it open? So, Okay, thank

Tom Zuppan: I'm just going to leave it open and…

Tom Zuppan: just mute and I'll call up the other hearing notice in order just to have it on the screen, but we'll keep the channel open and everything. So, just expect us or hear from us probably about five minutes before the next hearing at 9:45. All right. Thank you, Bernie. Thank you, everybody.

01:00:00

Tom Zuppan: Good morning. my name is Tom Zupin. I'm with the Arizona Department of Insurance and Financial Institutions. this is a hearing this morning on the credit disability primapaccia rates. this is one of four hearings that we just closed a hearing on credit life and we'll have two additional hearings after this disability hearing on unemployment and property. these hearings are being recorded and transcribed and will be available 3 days after closure of the hearings.

01:05:00

Tom Zuppan: If you wish to provide comments during the hearings, please raise your hand, and we will bring you into the meeting so you'll be able to make comments. We encourage you to provide written comments. in the hearing notice, there is a email address in order to provide comment.

Birny Birnbaum: Tom, I'm not hearing you.

Tom Zuppan: Yes, I should not be on mute.

Birny Birnbaum: Are you on mute?

Tom Zuppan: Let me double check my settings again. Let's see here. That's Bernie's muted. Can you hear me now? Yeah, I think what it is.

Tom Zuppan: Can you hear me now?

Birny Birnbaum: Yes.

Tom Zuppan: Okay, I apologize. So again, my name is Tom Zupin. I'm with Arizona Department of Insurance and Financial Institutions. This is a hearing on the credit disability primapaccia rates. This is one of four hearings we're having regarding credit primapacia rates. We close the hearing regarding credit life. We will have two additional hearings following this one on credit unemployment and credit property. Each hearing lasts a half an hour with a 15minute intermission between each.

Tom Zuppan: This one will go from 9:45 till 10:15 and the next one will be at 10:30 for the unemployment. We encourage people to make comments in regards to the orders. There are an email where you can provide written comments.az.gov. we're asking those comments be submitted by April 26th. and with that, I'll go ahead and open it up for any comments. And I believe Bernie Bernbound is here.

Birny Birnbaum: Tom, I see that a fellow named John Yuima had raised a hand before I did.

Tom Zuppan: Go ahead, Thank you, Bernie.

Tom Zuppan: We'll go with John can you speak? Try again, There we go. And then you just need to unmute yourself.

Tom Zuppan: John, I think it's down in the lower the bar at the bottom. There you go. If you could please introduce yourself and who you appears you might be having audio problems. Here's your muted again. You might try to unmute.

01:10:00

Tom Zuppan: may have to go to your settings on your computer there.

Birny Birnbaum: Tom, this is Bernie. Another option is to call in using the number and pin. and the meeting goes

Tom Zuppan: Yeah, John, if you heard that, maybe you could do that and call in the interim.

Tom Zuppan: John, we can hear Try it again.

John Euwema: Hello. …

John Euwema: Okay.

Tom Zuppan: There we go.

John Euwema: Can you hear me now? All right.

Tom Zuppan: Yes, we can. Thank you.

John Euwema: Thank Sorry about that. my name is John Wimma. I'm the attorney for the mer Our insurers, the great majority of credit insurance in Arizona and the rest of the states. I initially raised my hand to tell you that I could hear you when Bernie couldn't hear you. so I think at this particular point we had sent in some comments already that basically did not take issue with the rates that are being proposed. our initial concern was with having enough implementation time to put rates into effect dealing with all the different systems of creditors, lenders and others that are doing the billing for this. So we had already sent in a letter to that.

John Euwema: we may be sending in further comments. we kind might be addressing some of the comments that Bernie, made on credit life and that he undoubtedly will be making on some of these other, coverages. So, that's the extent of my comments on this time and I appreciate the opportunity to offer them here.

Tom Zuppan: All right, thank you very much, John. And yeah, if you could by April 26 submit any written comments to us, that would be appreciative. And as noted, there is not an effective date currently in the order at this time.

Tom Zuppan: Bernie, I'll recognize you to now speak in regards to making comments on the disability primacia rates.

Birny Birnbaum: Thank you.

Birny Birnbaum: So, for the record, I'm Bernie Bernbound with the Center for Economic Justice. and for the sake of brevity, I won't repeat all of the points I made in the credit life hearing, even though they're applicable here, but I will focus on a few things. I'm going to focus on the errors made by the consultant. as mentioned in the earlier hearing the consultant aired by incurred losses by a loss adjustment factor. So I won't repeat what I said earlier but that was an the consultant also errored by equating at primacial rates with the loss ratio standard. And again I'll repeat what I said in the earlier viewing.

Birny Birnbaum: However, I do want to add the following. As with credit life, the consultant did not use the most current available data. the NIC credit insurance experience data for 2023 is available long before the consultants report in December In 2023, according to data from the credit insurance experience exhibit, the overall actual Arizona single premium credit disability loss ratio was 14.9%. I think that gets to the realm of unconscionable compared to our loss ratio standard of 60%. The loss ratio of primacia rates was higher at 22.8%.

Birny Birnbaum: by 8%. So despite far below the loss ratio standard, one or more insurers were still Using the loss ratio of primmaacia risk adjusted to remove the 1.5% claim adjustment expense. The simple six-year average is about 25% for the six years 2018 to 2023. So if the selected expected loss ratio with primal facial rates was not 25 but 30%. The rate reduction would be Much greater than what the consultant proposed.

01:15:00

Birny Birnbaum: In fact, the expected loss ratio of current primacial rates is much lower than 30% and a rate reduction greater than 50% is reasonable and Further supporting a larger rate reduction than proposed by the consultant are data published by the NAC. The most recent NIC publication shows actual loss ratios and loss ratios of chronopacia rates for credit disability for Arizona from 2017 to 2021. And they also produce aggregate loss ratios for the three and fiveyear periods.

Birny Birnbaum: So the five-year aggregate loss ratio and five-year loss ratio primal facial rates were 20.2 and 20.1% 2017 to 2021 respectively. The three-year aggregate loss ratios were 20.2 and The 2023 actual loss ratio of 14.9% is significantly lower while the loss ratio at primmaacia rates at 22.8% clearly does not indicate or justify any upward trend adjustment. The consultant also aired by adding a 10% loss ratio trend.

Birny Birnbaum: First, the consultant provided no basis for adding such trend with no evidence in the data to support such an adjustment. The at primacial rates is just slightly above the 20 loss ratio and far below the 2019 loss such an adjustment is incorrect in primacial rate making credit insurance. The premium increases as the size of the loan increases, which means the same percentage for claims produces more dollars for claims. Further, the loss ratio trend for credit disability shows a long and steady decline on a nationwide basis from 42% in 2012 to 28.5% in 2023.

Birny Birnbaum: If you were to look at the NISC publication, you would see a steady year afterear decline. If the trend were to be applied, the experience clearly indicates that the trend is negative. Finally, the striking difference between actual loss ratio and the loss ratio at primacy rates provides further support for primacy rates at the low end of the range of reasonable. So given these incredibly low loss ratios, a rate decrease of at least 50% with a single premium product is reasonable and justified and a larger rate increase would also be reasonable and justified. Thank you.

Tom Zuppan: All Thank you, And again, if you could submit written comments.

Tom Zuppan: Can you hear me?

Birny Birnbaum: Yes, I can.

Birny Birnbaum: Yes, I can.

Tom Zuppan: Just want to make sure you submit written comments by April 26 to us. We appreciate that. Is there anybody else that wishes to make comments? If not, as previously stated, our next hearing will be regarding credit unemployment. that will take place at 10:30. So, we'll leave the web link open. therefore, the hearing on the credit disability rates will close. Thank you for your participation and we'll see you at 10:30.

01:35:00

Tom Zuppan: The notice of hearing for credit disability is formally closed.

01:45:00

Tom Zuppan: Good morning everybody. Can you hear me? I need to unfreeze it again. Can folks hear me? All muted. John, can you hear me? Bernie, can you hear me?

01:50:00

Tom Zuppan: Okay, it appears that everybody can hear me. my name is Tom Zupin. I'm with the Arizona Department of Insurance and Financial Institutions. we're conducting hearings in regards to primacial rates for credit. This hearing is in relationship to the order associated with credit unemployment insurance.

Tom Zuppan: the hearing will go from 10:30 to 11:00 a.m. The meeting materials are available on the DIY the department of insurance website. We are taking written comments in regards to these hearings and orders. Those written comments are requested be submitted by April 26 after the closure of these oral proceedings. at this time we do not have an effective date for the orders. So any comments in regards to that would be appreciative.

Tom Zuppan: With that, I am going to open it up to any public comment as it relates to the primapaccia rates for unemployment insurance. Are there any attendees that wish to make any comments in regards to the proposed orders?

Tom Zuppan: I don't see anybody raising their hand to speak at this time. again, if you are interested in providing any comments on the orders, either this one for unemployment or the prior orders that were discussed, you can submit them to the following email address at public_ comments.az.gov.

Tom Zuppan: and we're asking those be again submitted by April 26th. If there are no comments in regards to the orders at this time, we will go ahead and close this The next hearing will commence at 11:15 related to the primapacia rates for credit property. Thank you for your participation.

02:15:00

Tom Zuppan: This is a formal closing of the hearing regarding primapacia rates for credit under employment. Our next hearing will take place at 11:15 for credit property. Thank you.

02:30:00

Tom Zuppan: Good morning. This is Tom Zupin with the Arizona Department of Insurance and Financial Institutions. we are here today to conduct the final hearing on primapacia rates for credit property. We have had three previous hearings today for credit disability, and credit unemployment. so today for from 11:15 to 11:45 we're here to receive comments on the proposed order for the primapacia rates for credit property insurance.

02:35:00

Tom Zuppan: you can submit written comments via the email address that is in the order at public_ comments.az.gov. we are asking that those comments be submitted by April 26 of this year. with that though we will take oral comments. These proceedings are being recorded and transcribed and will be available 3 days after the hearings for review by the public.

Tom Zuppan: With that, I would like to ask if there are any folks in attendance at this time that would like to make any public comment in regards to the credit property primapacia rates. I only see one attendant from outside the department. and not seeing your hand raised, John, I assume that you do not wish to make any comments at this time. We do encourage you to submit written comments on this and the prior three proposed orders.

Tom Zuppan: this hearing will remain open until 11:45 and will be monitored so that if in the event anybody does wish to provide some comments on the proposed order they may do so prior to 11:45. With that, we'll put this on a pause and those that wish to log off may do so, but the department will stay online in case anybody else wishes to propose comments. Thank you.

03:00:00

Tom Zuppan: This is Tom Zupin with the Arizona Department of Insurance and Financial Institutions. just advising that we are now closing the hearing on the credit property primapacia rates. Thank you for your participation and we will provide the meeting minutes and transcripts three days after these. Thank you. Meeting hearing is adjourned.

Meeting ended after 03:05:38 👋

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