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June 6, 2002

Ana M. Smith-Daley
Deputy Commissioner
Life Health Division, Mail Code 106-1A
P.O. Box 149104
Austin, TX 78714-1904

By Electronic Mail and Fax (512) 322-3552

Re: Comments on Credit Life and Credit Disability Rates
Pursuant to Notice of March 20, 2002.

Dear Ms. Smith-Daley:

We write to clarify an issue in our April 22, 2002 comments regarding credit insurance rates and to respond to comments submitted by other interested in response to your March 20, 2002 Notice.

CEJ Analysis

Our analysis is based upon a review and summation of all individual company experience records in the database provided by TDI. We did not refer to or utilize the Department's summary reports in our analysis. Consequently, we did not attempt to identify errors in the Department's summary reports. We have since reviewed the Department's summary reports by class and plan of business and find that they differ from our calculations. We have identified clear errors in the Department's summary reports and are confident that our summary calculations are accurate because we reviewed individual insurer data, as described in our March 20, 2002 comments.

CUNA Mutual

CUNA Mutual argues for the establishment of rates by class based upon the respective experience of different classes of business. CUNA Mutual also recommends consideration of rates by major plans of business (SP versus MOB) based upon the higher different expenses associated with MOB and SP products. These comments are consistent with our recommendation for rates by class and plan of business.

CUNA Mutual also argues that presumptive rates are too low based upon the fact that they had to file for some deviations greater than 130% of the presumptive rate. CUNA Mutual's actions demonstrate why our proposed 1/1.3 factor is reasonable. If, as in the case of CUNA Mutual, claim costs are greater than average, the insurer can obtain a deviation for a higher rate. Consequently, insurers are always in a position to obtain an adequate rate. If, however, presumptive rates are set too high, credit insurers – with the exception of the credit union class of business – will not file for downward deviations, but will charge rates for which benefits are not reasonable in relation to premium. The nature of presumptive ratemaking – a double-edged sword with both edges against the consumer – makes the 1/1.3 factor necessary and reasonable.

CUNA also argues that low presumptive rates do not provide for adequate non-claim costs in the deviation process because the Texas deviation process allows for increased claims and claim-related expenses only. Our review of the deviation process indicates otherwise. Noon-claim dollars do increase with upward deviations. The tables below document this fact.

Table 1
Credit Life Deviations

Case Loss Ratio	Expected Loss Ratio	New Case Rate	Premium Remaining After Claims	Premium Tax	Premium Remaining After Claims and Premium Tax
50%	50%	$1.000	$0.500	$0.016	$0.484
60%	50%	$1.110	$0.510	$0.018	$0.492
70%	50%	$1.220	$0.520	$0.020	$0.500
75%	**50%**	**$1.275**	**$0.525**	**$0.020**	**$0.505**
80%	50%	$1.330	$0.530	$0.021	$0.509
90%	50%	$1.440	$0.540	$0.023	$0.517
100%	50%	$1.550	$0.550	$0.025	$0.525
110%	50%	$1.660	$0.560	$0.027	$0.533
120%	50%	$1.770	$0.570	$0.028	$0.542
130%	50%	$1.880	$0.580	$0.030	$0.550

Table 2
Credit Disability Deviations

Case Loss Ratio	Expected Loss Ratio	New Case Rate	Premium Remaining After Claims	Premium Tax	Premium Remaining After Claims and Premium Tax
64.2%	60.0%	$1.048	$0.406	$0.017	$0.390
70.0%	60.0%	$1.115	$0.415	$0.018	$0.397
80.0%	60.0%	$1.230	$0.430	$0.020	$0.410
90.0%	60.0%	$1.345	$0.445	$0.022	$0.423
100.0%	60.0%	$1.460	$0.460	$0.023	$0.437
110.0%	60.0%	$1.575	$0.475	$0.025	$0.450
120.0%	60.0%	$1.690	$0.490	$0.027	$0.463
130.0%	60.0%	$1.805	$0.505	$0.029	$0.476
140.0%	60.0%	$1.920	$0.520	$0.031	$0.489

OPIC Comments

Mr. Schwartz, on behalf of OPIC, recommends the use of four years of experience for the analysis of presumptive rates. He argues that four years provides an "appropriate balance between responsiveness and stability," but does not explain why four years meets these criteria. His principal reason for using four years of experience appears to be the Commissioner's decision in the 2000 rate order. In our view, three years is more appropriate to use for several reasons. First, the NAIC credit insurance models specify three years of experience as the basis for review of presumptive rates. Second, the Texas deviation process specifies an experience review period of no greater than three years for the review of case experience. Clearly, experience levels substantially larger than case experience – as is the case for industry-wide analysis – should not require a longer experience period. Third, three years of experience is reasonable for rates to be responsive to recent experience. If longer periods of review indicate trends in losses, then a loss trend factor can be incorporated into the analysis.

Mr. Schwartz's credibility standard is too high. He utilizes a standard of 2,000 claims for 100% credibility. This is too high for credit life or credit disability. The standard in NAIC credit insurance models and the Texas administrative rule is 200 claims for 100% credibility.

Mr. Schwartz recommends rates by class of business, but bases these rates on all plans of life business combined and all plans of disability business combined. This fails to recognize the fact that SP and MOB have different claim experience and the fact that most MOB business will be replaced by debt cancellation and debt suspension agreements. While we support rates by class of business, it is also necessary to further establish rates for MOB and SP business, too, as CUNA Mutual recognized.

CCIA, TALHI Comments

The comments from Mr. Hause represent the best argument for two things – the need for cross examination of witnesses and the insurance industry's abuse of component rating.

Mr. Hause's comments represent a set of unsubstantiated and unsupported allegations – allegations that would not hold up under cross-examination. Similarly, the results of Mr. Hause's analysis – a credit life rate with an expected loss ratio of 32% and a credit disability rate with an expected loss ratio of 40% before the 130% deviation and 25% and 30%, respectively after the 130% deviation – are unreasonable on their face. For Mr. Hause and the credit insurance industry, there is clearly no loss ratio too low to satisfy a test of reasonableness.

As an example of Mr. Hause's breezy approach to analysis, he expresses skepticism about the 150% joint life multiple – "one of the lowest currently in use" – but offers no analysis or rationale why 150% is inappropriate. He speculates that it "may not reflect the demographics underlying the data." In fact, over the 1997-99 period, the joint credit life claim cost was almost exactly 150% of the single credit life claim cost. And utilizing the deviation process in the Texas administrative rule, a joint life factor of only 127.5% would be indicated.

Thank you for your consideration.

Sincerely,

Birny Birnbaum
Executive Director

cc Jackie Robinson, Life, Annuity and Credit