



Delaware Insurance Department

Commissioner Karen Weldin Stewart, CIR-ML
Brandywine Valley CPCU
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EMERGING TRENDS IN THE INSURANCE INDUSTRY

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Managing Director Market Conduct/Consumer Services/Producer Licensing

Automobile Insurance

- Credit Scoring
- Price Optimization
- Discounts
- Pay As You Drive
- Widows/Widowers
- Teenage Drivers



AUTOMOBILE INSURANCE



Credit Scoring

Insurers use your credit files to predict the odds that you will file a claim.

If they think your credit isn't up to their highest standard, they will charge you more, even if you never had an accident.

Almost 130 elements in a credit score, each insurer uses about 30 to create a proprietary score that is normally very different from the FICO score that consumers are used to.

Example; adult single driver with a clean driving record;

Excellent Credit - \$1,409, Good Credit - \$1,721, Poor Credit - \$3,826

Commissioner Stewart researching limitations on the use of credit scoring beyond the initial policy inception.

AUTOMOBILE INSURANCE



Price Optimization

A method that uses non-risk related information to move insurance premiums away from their cost based level.

Example: 10 year policy holder, never had an issue with their insurer so they want to stay with their current insurer. Their loyalty sometimes results in slight increases, usually over time, as they either don't notice it or do not want to shop around. Another customer over that same period of time with the same risk profile ends up with a lower rate because she occasionally calls and complains about increases.

This use of non-risk information causes rates to be unfairly discriminatory.

Commissioner Stewart issued Bulletin #78 prohibiting this practice in the State of Delaware.

AUTOMOBILE INSURANCE

Discounts

Auto Insurance Companies regularly boast about ways you can save money with them. Things such as bundling home and auto insurance, or installing anti-theft devices are advertised the most. However a recent study by the Consumers Union found that such discounts saved very little, just \$97.00 per year.



AUTOMOBILE INSURANCE

Pay As You Drive

Some insurers are exploring the possibility of providing insurance coverage for only the time that the vehicle is actually being driven (*excluding such items as vandalism, uninsured motorist, etc.*). In-car computer modules are installed to monitor the vehicle's operation.

GM has announced in-car computer systems to monitor young driver's driving habits.



AUTOMOBILE INSURANCE

Widows/Widowers

New Research by the Consumer Federation of America shows that most major auto insurers vary prices considerably depending on marital status.

Higher rates for widows than for married women. Ten cities were studied, with four major insurers involved and it found increased rates on state-mandated liability coverage for widows by an average of 20%.

"Hiking rates on women whose husbands die seems both unfair and inhumane," said Stephen Brobeck, CFA's Executive Director.

On October 6th, Commissioner Stewart issued Auto Bulletin #23 prohibiting this practice in the State of Delaware.



AUTOMOBILE INSURANCE

Teenage Drivers

Adding a teen driver can cost a fortune, but it does not have to.

On average nationwide, the impact was a 90% premium increase (*Hawaii had the lowest at 16% and North Carolina had the highest at 159%*).

Example; a 55 year old couple without a child had a \$1,762 annual premium. When they added a 16 year old son to the policy, the premium jumped 194%, to \$5,482. If this couple assumed that this type of price hike is standard, they might simply pay up.

Compare, compare, compare! By shopping around, the same couple with the teen found a policy with another company for only \$2,667, a mere 4% increase.



UBER/RIDE SHARING

(Information provided by UBER and from TNC Insurance Compromise Model Bill)

Protection of Passengers

- \$1MM Liability & Uninsured/Underinsured bodily injury coverage
- Any other auto compulsory coverage required of a limousine
- AM Best “*Excellent*” Rated Insurance Carrier

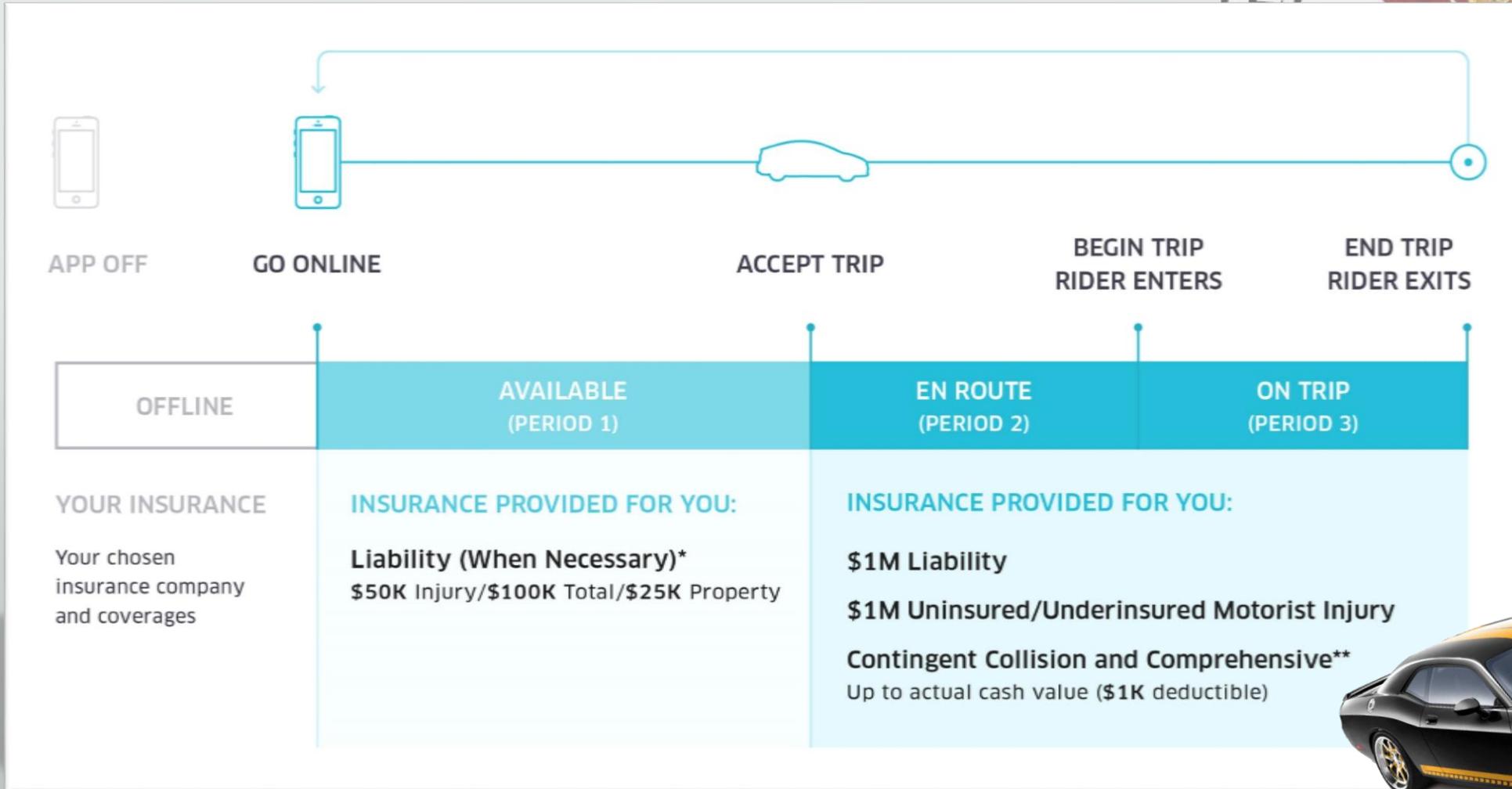
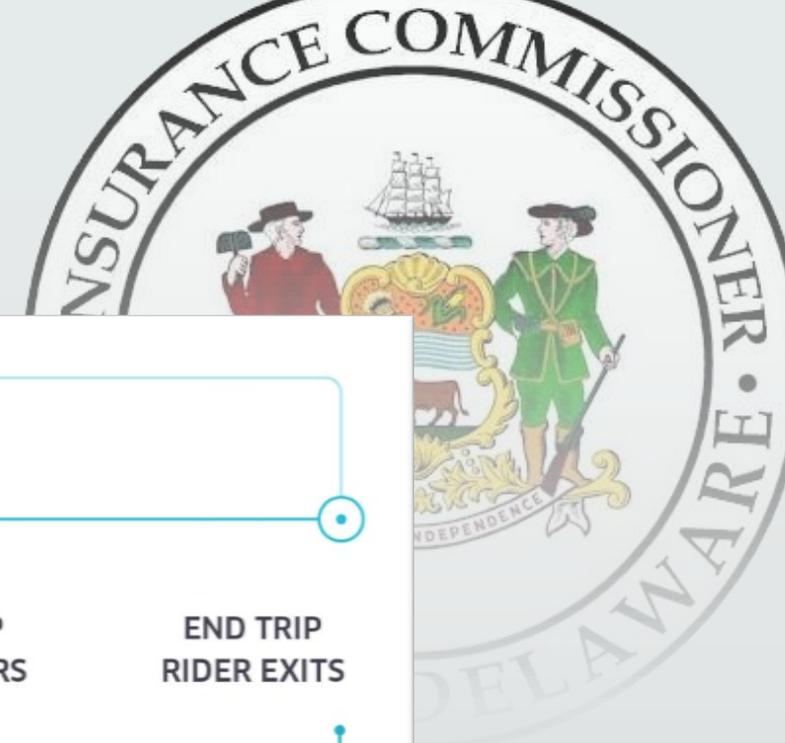
No Gaps in Coverage

- 50/100/25K limits while “*available*” meets or exceeds financial responsibility requirements in all 50 states.
- Any other personal auto compulsory coverage
- Uninsured/Underinsured motorist liability coverage and personal injury protection benefits are provided in accordance with state law.



UBER/RIDE SHARING

(Insurance For Rideshare Drivers With Uber)



DRIVERLESS/AUTONOMOUS VEHICLES

Level 1 – function specific automation adoptive cruise control

Level 2 – combined function automation-adoptive cruise control and lane centering

Level 3 – limited self-driving automation-driver remains attentive

Level 4 – full self-driving automation driver not required to remain attentive

2015 – Tesla – turn on turn signal and car changes

2016 – Cadillac – Super cruiser- hands and foot free

2017 – 2017 Audi – car parks itself after driver departs

Volvo predicts with this technology in 2020 there should be no more fatalities in automobiles.



DRIVERLESS/AUTONOMOUS VEHICLES

Insurance Related Issues

Liability – if accident caused by software who is at fault? Possible black boxes?

No insurance involvement until Level 2 or 3 technical release and will likely be litigated by liability laws.

New technologies so no data to determine bas rates.

Insurance companies will try to exclude driver or develop different coverage type.



HOMEOWNERS INSURANCE

General

Credit Scoring involved in the same manner as automobile insurance.

Homeowners with poor credit pay approximately 91% more for insurance than homeowners with excellent credit.

Average claim severity grew at an annualized rate of 78% between 1997 and 2013, while claim frequency decreased 2.6% per year. Result: Homeowner cost grew more than 5% per year while inflation increased 2.4%.

The industry trend is mandatory larger deductibles.

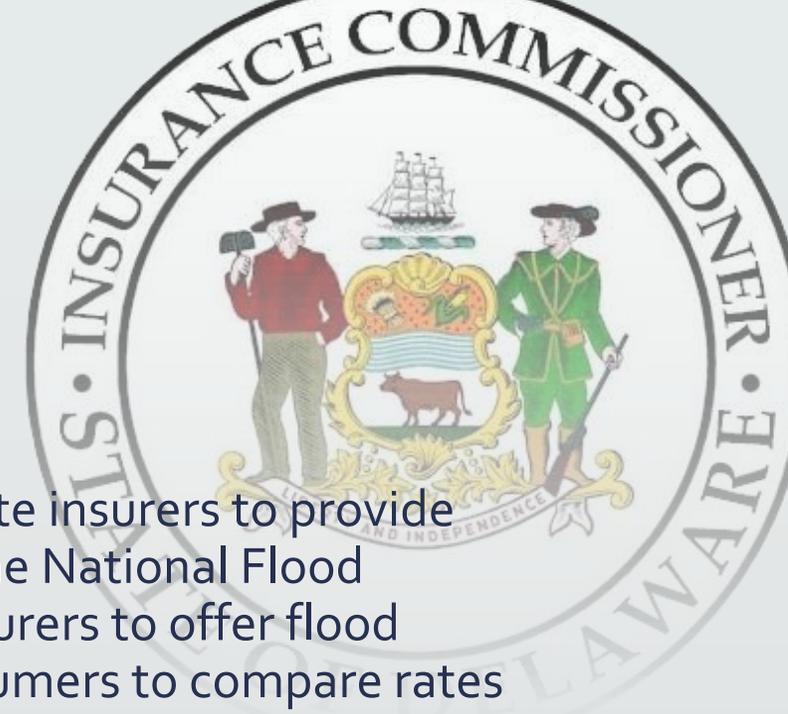


HOMEOWNERS INSURANCE

Flood Insurance

Current bills pending in Congress (*H.R.2901 and S.1679*) to allow private insurers to provide flood insurance. Many mortgage lenders at the present only accept the National Flood Insurance Program. The passage of these bills would allow private insurers to offer flood insurance as long as they meet the FEMA standards. This allows consumers to compare rates for their best option. In one case a homeowner was paying an annual premium under the federal program of \$7,500, but a private insurer provided the same coverage with an annual premium of \$1,415.

Commissioner Stewart has reached out to the Delaware Congressional Delegation asking that they support to passage of this legislation.

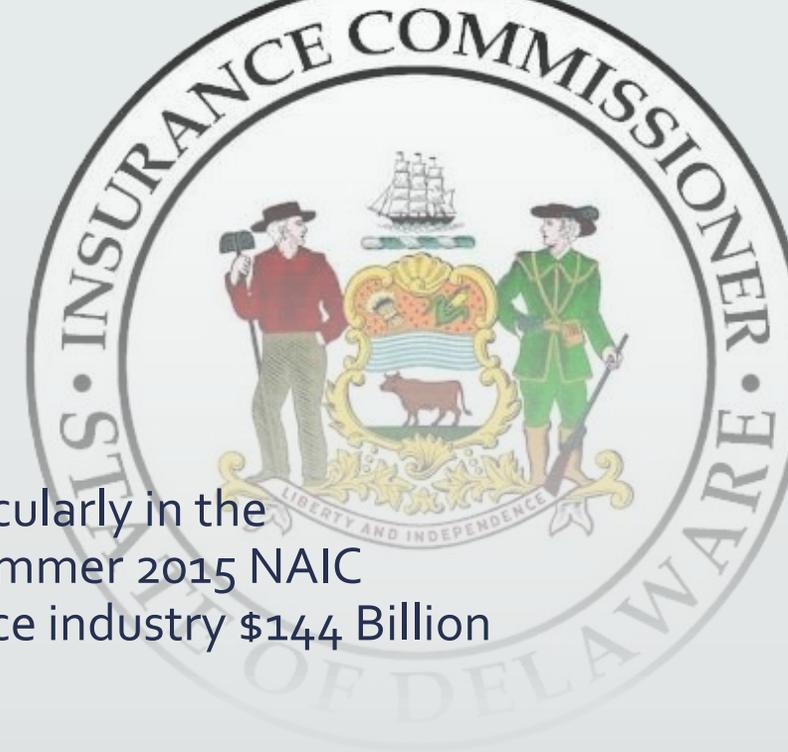


HOMEOWNERS INSURANCE

Climate Change

The impact of climate change will affect insurance in the future. Particularly in the investment side of the industry. One study on the impact from the Summer 2015 NAIC Conference suggests a 2% increase in CO₂ levels will cost the insurance industry \$144 Billion over 10 years.

Suggested investments in re-newable energy, nuclear energy, agriculture and water resources. Stay away from fossil fuels, particularly coal.



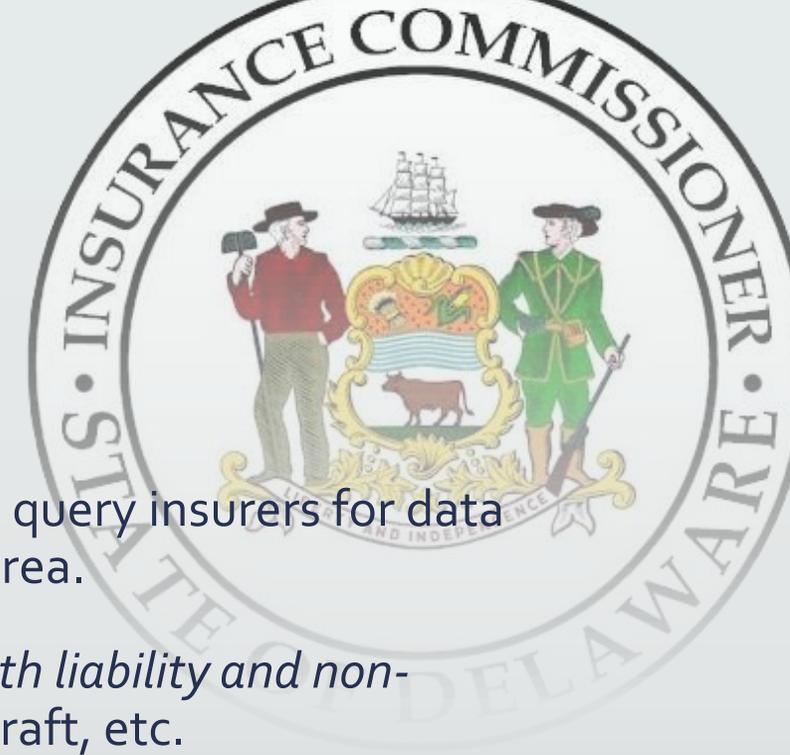
HOMEOWNERS INSURANCE

Terrorism Insurance

Federal Insurance Office has reached out to the states via the NAIC to query insurers for data relating to the premium rates for terrorism insurance by geographic area.

Identified numerous lines of insurance impacted; fire, commercial (*both liability and non-liability*), workers compensation, ocean marine and inland marine, aircraft, etc.

Currently it would create additional expense to a large part of the industry, in manpower and possible computer updates to break out the lines requested with geographic areas.



HOMEOWNERS INSURANCE

Catastrophe Insurance

- Earthquake
- Tsunamis
- Flood
- Wildfire
- Winter Storm

Industry is looking at impact forecasting using modeling software using data from various sources such as the National Hurricane Center SLOSH model for storm surge models, the United States Geological Survey Next Generation Attenuation (*NGA*) for earthquake models, the National Oceanic and Atmospheric Administration (*NOAA*), and numerous other sources both domestic and abroad.



INTERNET USE FOR INSURANCE PRODUCTS

Rise in Customers' Use of the Internet to Buy Insurance Products

- Easy Access to the internet; via computer, mobile and other handheld devices.
- More prominent in the younger consumer.
- Consumers currently use the internet primarily to compare and research purchases; this includes automobiles, tickets to sporting events and insurance products.
- Agents/Brokers need to be readily available on a website to compete.
- Insurers need to provide a robust self-service portal for its customers, which serves the dual purpose of increasing customer satisfaction while reducing operational workload.
- Sales via online channels have been slower than initial expectations, they are still expected to continue growing in the future.



INTERNET USE FOR INSURANCE PRODUCTS

Social Media

- Platforms such as Facebook, LinkedIn, Google and Twitter have witnessed rapid growth over the last few years.
- Feature embedded functionalities that better help businesses, including insurance, to reach out and interact with their target audience base.
- Consumers reach out to family and friends to obtain sales-related advice.
- Consumers may also post complaints and bad experiences with insurers.
- Use by the insurers in the detection of insurance fraud.

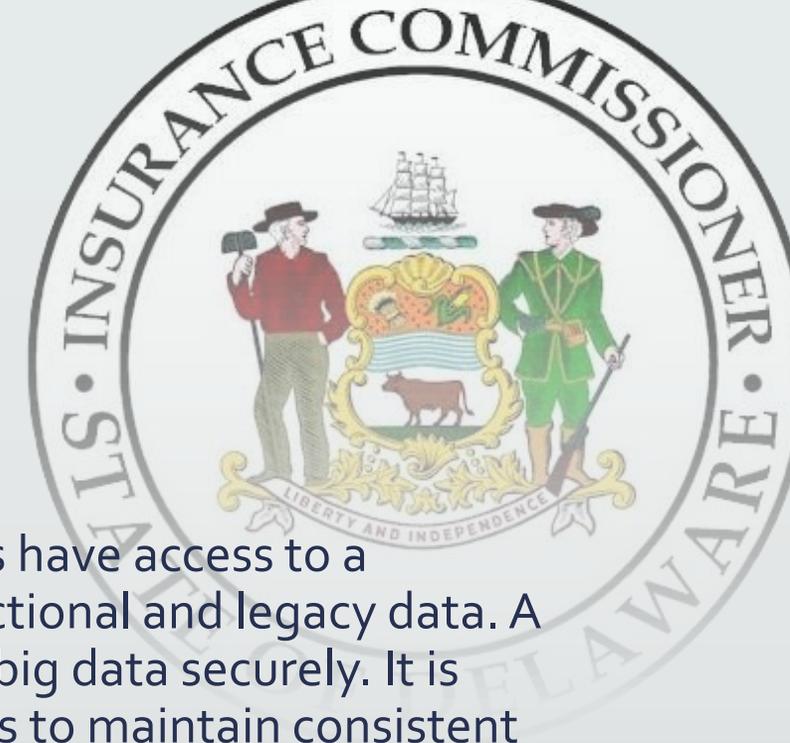


INTERNET USE FOR INSURANCE PRODUCTS

Big Data

Since the advent of social media and digital communications, insurers have access to a staggering amount of data, in addition to their own customer, transactional and legacy data. A major concern across insurers of all sizes is how to manage and store big data securely. It is essential that insurers implement a strategic approach across all levels to maintain consistent control.

Heightened consumer awareness is also leading to increased regulatory actions for managing big data.



INTERNET USE FOR INSURANCE PRODUCTS

Cyber Attacks/Coverage

Surge in cyber insurance, expect as much as a 50% annual increase in the number of policies purchased.

Example; "On January 29, 2015, Anthem, Inc. discovered that cyber attackers executed a sophisticated attack to gain unauthorized access to Anthem's IT system and obtain personal information..." Exposed personal information of approximately 80 million current and former customers and employees. The estimate cost to repair is at least \$2 Billion.



INTERNET USE FOR INSURANCE PRODUCTS

Privacy Disclosures

At the Summer NAIC Conference the NAIC committee recommended that all states adopt the Federal Model as in use by FINRA.



TOP SECRET

HEALTH INSURANCE

Overview of the ACA

- Premium Increases
 - Utilization by non-insured and under-insured higher than expected.
 - Higher pharmacy costs.
 - Use and lose members.
- Federal Review of Big Rate Increases
 - Healthier consumers enrolling.
 - Tax penalties increasing in 2016 and beyond.
 - Lower medical inflation due to changing and expanding consumer base.
- Telemedicine is expected to increase across all specialties. New legislation, House Bill No. 69 requires insurers to pay for such service as they would for a face to face visit.
- Behavioral Health has become a major focus to integrate with primary care providers. Commission Stewart has been appointed to a State Behavioral Health Task Force to adopt standards that are compliant with the ACA.



LIFE INSURANCE

The future customer will reshape the entire life insurance system. More clients than ever are turning to the internet before they make a purchase. Call centers, mobile, and web sites will all play a big role in the future. Agents will have to maximize online tools to attract customers. In the end the “digital agent” will come out ahead.



LEGISLATIVE UPDATES

Regulatory Updates – 2015

1. Legislative or business process changes occurring over this past year:

Title-18 1706 Application for License (b) each resident application shall contain a statement of the applicant's criminal history, which the applicant shall obtain from the Delaware State Bureau of Identification pursuant to sub section 8513(a)(2) of Title 11. Each resident applicant and non-resident applicant that has declared Delaware to be his or her home state shall also provide a federal criminal history report from the Federal Bureau of Investigation.

The above legislation was signed into law in 2015. This amendment will assist in expediting the license application as FBI criminal history reports will be sent electronically to the State Bureau of Identification.



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

2. Are there legislative or process changes in the horizon?

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

NOTE: Text in this *color* denotes additions and or changes to the statutes.

1. Application for License 1706 (f)(2) add/change: The business entity has designated a licensed producer, *adjuster or appraiser, as applicable*, responsible for the business entity's compliance with the insurance laws, rules and regulations of this State. *If the license of a business entity's designated responsible licensee is no longer active (whether due to expiration, suspension, revocation or otherwise), the license of such business entity shall be immediately suspended until such time as a designated responsible licensee in good standing is designated as such business entity's responsible producer, adjuster or appraiser, as applicable.*



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel (proposed amendments for 2016):

2. License 1707 (f) add/change: License issued pursuant to this Chapter 17 shall remain in effect unless revoked or suspended as long as the fee set forth in Chapter 7 of this title is paid and education requirements for resident individual producers licensees are met by the due date. *Notwithstanding anything to the contrary in this Chapter 17, a licensee's failure to pay the fees set forth in Chapter 7 of this title or meet the education requirements established by the Commissioner shall result in the lapse by operation of law of the license issued to such licensee, without any notice required to be sent by the Department of Insurance to the licensee.*



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel (proposed amendments for 2016):

3. License 1707 (g) add/change: An individual *licensee* who fails to timely renew and, as a result, allows his or her license to lapse may, within 12 months from the due date of the renewal fee *or due date for the completion of the education requirements, as applicable, reapply for* the same license without the necessity of passing a written examination. However, a penalty in the amount of double the unpaid renewal fee shall be required for any renewal fee received after the due date and within the first grace period of 6 months from the due date of the renewal fee; and may be subject to a civil fine of not less than \$200 and not more than \$1,000 within the second grace period of 6 months after the due date of the first grace period. *Prior to any such license being re-issued, the licensee shall provide evidence of compliance with all continuing education requirements for the relevant renewal period. Licensees who do not intend to renew their licenses must, on or prior to the due date of the renewal fee or due date for the completion of the education requirements, as applicable, submit to the Department a notice of voluntary surrender of their license in a form approved by the Department. Licensees who fail to timely renew within the grace period set forth in this subsection (g) and do not otherwise submit a timely notice of voluntary surrender shall be subject to the same civil fine imposed on those licensees who renew within the second grace period referenced above, with such fine to be payable prior to being able to reapply for a Delaware license.*



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

4. License 1707 (m) Records add/change: The licensee shall maintain at his or her principal place of business the license issued by the Commissioner, together with such records as may be reasonably required by the Commissioner. Such records shall show, (1) with respect to insurance producers, for each policy or contract placed or countersigned by or through the licensee, names of the insurers, insureds, policy number, expiration date thereof, premium payable under the terms of the policy or contract, and such other information as the Commissioner may, from time to time, require, and (2) *with respect to adjusters and appraisers, for each claim settled or adjusted, names of the insurers, insureds, policy number, the amount for which the claim was adjusted or settled, and such other information as the Commissioner may, from time to time, require.* Records shall be retained and available for inspection by the Commissioner for a period of 3 years.



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

5. Nonresident licensing 1708 (a)(4) add/change: Non-resident adjusters whose home states (*including designated home states*) do not have examination requirements for adjusters shall be required to satisfy this State's examination requirements prior to licensure.



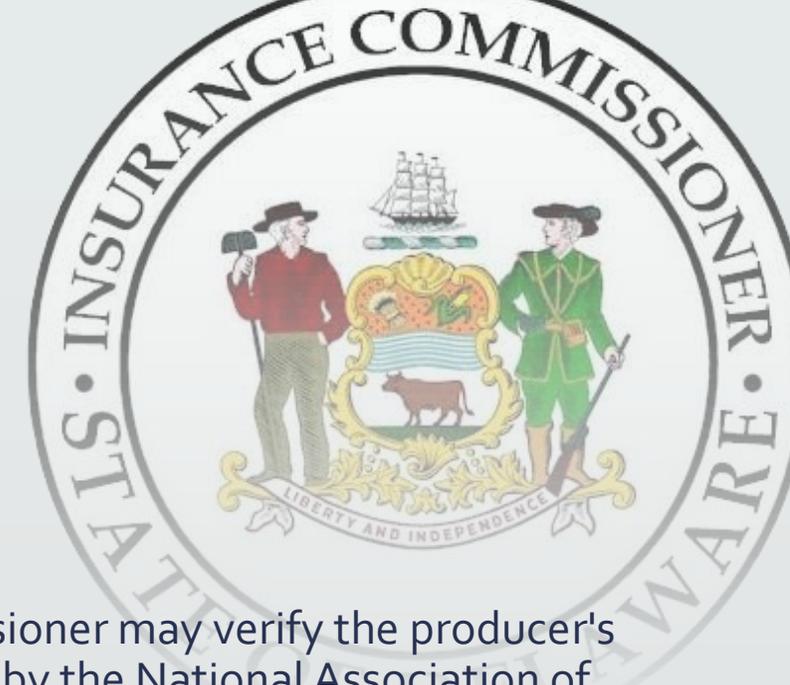
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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

6. Nonresident licensing 1708 (b) (b) add/change: The Insurance Commissioner may verify the producer's licensee's licensing status through the Producer Database maintained by the National Association of Insurance Commissioners, its affiliates or subsidiaries. *If a non-resident licensee's license in his or her home state is no longer in good standing (whether as a result of suspension, revocation or other action by the home state regulator), such licensee's non-resident license shall, thirty (30) days after the final action taken with respect to the home state license, lapse by operation of law, without any notice required to be sent by the Department of Insurance to the licensee.*



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

7. License denial, nonrenewal or revocation 1712 (a)(1) add/change: Providing incorrect, misleading, incomplete or materially untrue information in the license application *or presenting, causing to be presented, preparing, assisting, abetting, soliciting or conspiring with another to prepare any document in the conduct of the licensee's business that contains false, incomplete or misleading information concerning any fact material to such document;*
8. License denial, nonrenewal or revocation 1712 (a)(15) add/change: Failing to provide preliminary substantive responses to inquiries from the Department regarding violations of this title within 21 calendar days of such inquiry.



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

9. Commissions 1714(g) add/change: *An unlicensed person who refers a customer or potential customer to an insurer or insurance producer and who does not discuss specific terms and conditions of a policy or give opinions or advice regarding insurance may be compensated for the referral, if the compensation:*
 - 1) *For each referral is:*
 - a) *nominal;*
 - b) *on a one-time basis; and*
 - c) *fixed in amount by referral;*
 - 2) *Does not depend on whether the customer or potential customer purchases the insurance; and*
 - 3) *Is not contingent on the volume of insurance transacted. The restrictions set forth in this provision shall not apply to commercial lines. Referral fees for commercial lines shall still be subject to Section 1714(d).*



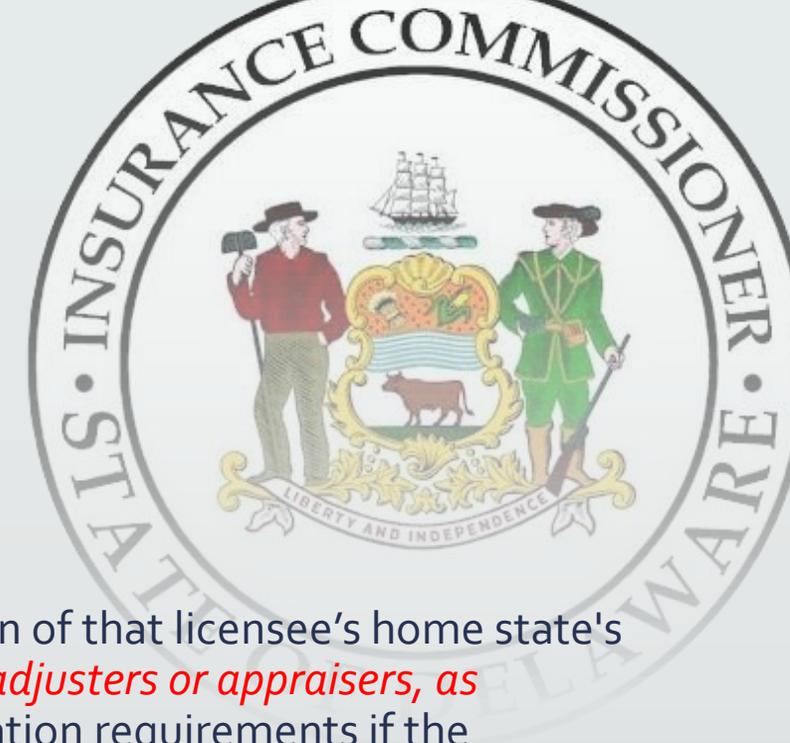
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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

10. Reciprocity 1717(b) add/change: (b) A nonresident *licensee's* satisfaction of that licensee's home state's continuing education requirements for licensed insurance producers, *adjusters or appraisers, as applicable*, shall constitute satisfaction of this State's continuing education requirements if the nonresident *licensee's* home state recognizes the satisfaction of its continuing education requirements imposed upon licensees from this State on the same basis. *Non-resident adjusters whose home states (including designated home states) do not have continuing education requirements for adjusters shall be required to satisfy this State's continuing education requirements.*



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LEGISLATIVE UPDATES

Regulatory Updates – 2015

Title 18 Chapter 17 Licensing of professional insurance personnel
(proposed amendments for 2016):

11. Additional or continuing education 1718 add/change: In addition to meeting the standards prescribed in other sections of this chapter for the issuance of a license, the Commissioner may promulgate regulations and/or prerequisites which will establish reasonable standards and criteria for requiring additional or continuing education of licensees, in order to ensure the maintenance or improvement of a licensee's insurance skills and knowledge. Failure to provide proof of meeting continuing education requirements *shall* result in *the automatic lapse of such licensee's license in accordance with Section 1707(f) of this title and may result in the imposition of monetary penalties in accordance with Sections 1707(g) and 1712(d) of this title.*





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