Director McRaith, Director Richardson, and committee members, I am pleased to share results of my academic research and experience with insurance mathematics as they pertain to the subject of this hearing. I appear in my role as Policy Advisor to The Heartland Institute. I hold the Whitbeck-Beyer Chair of Insurance and Financial Services at the University of Arkansas – Little Rock. I also serve as editor of the *Journal of Insurance Regulation*. As such, I participate in this hearing to serve as a resource to this committee, rather than to represent a political or economic interest. Credit based insurance scoring is among my primary research interests. I am familiar with mathematics used to calculate insurance scores. My research focuses on the effects of insurance scoring on insurance markets and consumers.

While the specific focus of this hearing is the Risk Classification Data Call, I also direct committee members to my published research and previous testimony on insurance scoring as broader treatises on this topic.[1]

The Risk Classification Data Call lists the following four objectives:

1) Evaluate how insurers use credit-based insurance scores.

2) Determine how current economic conditions have affected policyholder premiums related to credit-based insurance scores.

3) Evaluate the role played by credit-based insurance scoring vendors.

4) Evaluate the use of new and innovative risk classifications and risk evaluation tools used by the industry and what impact these risk classifications have on consumer rates.

My research addresses objectives one and two. My expertise also envelops objectives three and four. Therefore I will be pleased to take questions on any of these subjects.

The Data Call

Having reviewed the proposed draft data call, I offer several comments that I hope will

Figure 5: South Carolina Average Loss Ratios and Credit Risk Index, 2000 – 2008
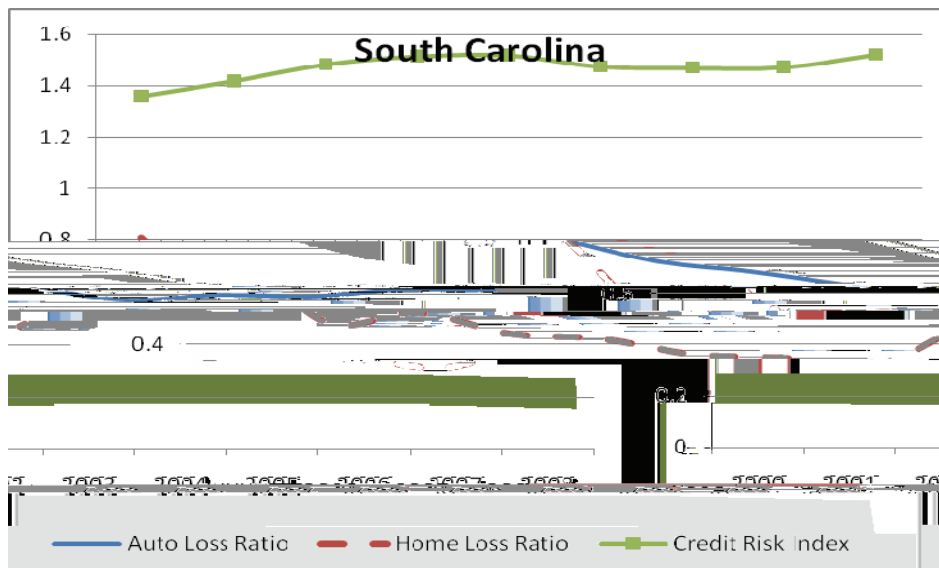
In addition to addressing the specific question of how recent economic events affect insurance prices, this analysis also supports the general conclusion that insurance markets are extremely competitive; providing the best and most effective form of consumer protection.

Specific Variables in the Data Call

The proposed data call is a very comprehensive effort to collect data on insurance pricing. My concern with its approach is that some of the variables present challenges to producing meaningful analytical results and other variables do not seem to represent information that relevant to analyzing individual companies. As such, the data call can be more efficient and effective by eliminating or altering some of these variables.

Table 3 requests the range of rate relativities for 35 variables plus additional spaces for write-ins. One concern with this approach is that many rating variables are not applied in a univariate method. They interact and form interdependence with other rating variables. Even when holding all other variables equal, each company's rating method may create different results depending on where each variable is held equal. For example, if there is a strong interactive relation between geographic location and credit, holding location at a certain level