Insurance Regulators: How a Grading System Benefits the Insurance Industry

A consumer friendly, accurate, insurance grading system is a regulators best friend. Learn how regulators can benefit from the ValChoice grading system.

ValChoice®

Why an Insurance Grading System?

The need for an insurance grading system has been discussed many times at National Association of Insurance Commissioner (NAIC) meetings. Few question the need for such a system. The process is complicated though. Measuring performance, compiling the data and presenting the results in an easy-to-understand fashion is only part of the challenge.

Getting agreement among autonomous regulators to a methodology is all but impossible. Assuming it were possible to gain agreement on need and methodology, who would implement such a project? Regulators and current vendors to the industry don't want to be in the position of providing side-by-side comparisons. The nature of such comparisons leaves some companies not faring as well as others. This puts regulators in an awkward position. However, none of these issues lessen the need for performance comparisons for insurance.

Finally, ValChoice -- an analytics company -- has delivered a grading system designed to measure the elements of insurance that consumers care about most:

- Price
- Protection
- Service

How Insurers, Regulators and Consumers Benefit from a Grading System

When selling a complex product a grading system is an important communication tool between the customer and the supplier. A grading system provides consumers insight into what the supplier cares about and how the supplier manages their business. Armed with this important information consumers will intelligently self-select, choosing suppliers whose business goals align with their personal needs. Consumer satisfaction increases as a direct result of consumers getting what they paid for, because for the first time they understand what they are paying for.

For the insurance company, marketing and sales costs are minimized based on targeting specific customers with a clear value proposition as opposed to the current approach of casting a wide net based on expensive advertising. With this more efficient approach insurance companies will begin marketing to consumers based on the key product characteristics (price, protection and service) their customers care about most. Carriers can also segment the market by risk profile. The

ability to focus on potential customers with specific characteristics significantly reduces the cost of marketing and sales.

The increased transparency that is enabled by a grading system builds trust among consumers. This helps to establish long-term relationships between the customer and the insurance company. Both insurers and consumers benefit.

Regulators benefit based on the "helping hand" increased transparency delivers. The helping hand is a direct result of transparency stimulating competition. Competition is the most effective approach to contain costs and improve customer service. Regulators also benefit through fewer confrontations between insurers and consumers as a result of more effective communication of the products value characteristics and what the consumer can expect from the insurer.

How the Grading System Works

ValChoice calculates grades for both groups and writing companies by Line-of-Business. Grades are calculated by constructing a multiple-year performance model for the industry. A multi-year performance model neutralizes the impact of catastrophic events. Both groups and writing companies are graded against the performance model.

Price

The Price portion of the ValChoice score analyzes financial data and shows how each insurance company compares based on the coverage they offer for the price. The analysis is displayed with a fuel-gauge-style image so users can easily tell how any given insurance company performs. For example, in the gauge to the right, this insurance company has excellent performance.

Mid-point on the gauges represents industry average performance.

Protection

The protection grade is based on analyzing the companies' losses. The analysis is presented in an easy-to-understand image showing how good the companies' claims payment performance compared to other companies within their peer group. The analysis is also portrayed with a fuel-gauge-type image.

Comparison with peer companies

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Service

The service component of the overall score is based on complaints filed with insurance commissioners. As with the all other components of the grading system, this information is collected for both groups and writing companies, then turned into a star-rating system for presentation to consumers, agents, brokers and advisors.

Th ValChoice Score

The ValChoice Score is a combination of the three components of the grading system described above. Clients can decide which grade is most important to them, or make a purchase decision simply based on the VaChoice Score. Like the price and the protection grades, the ValChoice Score is represented with an easy-to-understand fuel-gauge-like image with the center (yellow) being industry average. Click here to learn more about our subscription services. Subscription services give access to our database of information for use in working with consumers of insurance.

The ValChoice Score combines all elements of ValChoice grading system.

Participation by Insurance Regulators

As part of the continuous improvement culture at ValChoice, we welcome ideas for how to enhance the insurance grading system. As an insurance regulator you are a key participant we would like to invite to be part of this process. The following are three initial steps that could enhance the grading system:

1. Collect and publish complaint data based on the number of claims filed. Data needs to include: time to settlement, number of contested settlements.
2. Use a consistent methodology for collecting complaint data from state to state.
3. Make future rate filing -- including loss ratio studies -- available as a forward-looking component in the grading system.

There are many more ways ValChoice and regulators can work together to help consumers in your state. To discuss how consumers could benefit, contact us for a more detailed conversation. You can reach us by clicking here and filling out the Contact Form. If you have ideas you would like to share in advance, you can include details about what you would like to discuss.

About ValChoice

ValChoice® is the only company to provide consumers, agents and advisors with information on which home and auto insurance companies offer the best price, protection and service. The company's advanced analytics platform collects and analyzes millions financial and complaint data points and delivers the results in an easy-to-use service that Forbes Magazine describe as "Carfax for insurance." Using ValChoice, consumers are finally able to shop for insurance based on value rather than making decisions blindly based on price or advertising campaigns.