



Consumer Federation of America

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INSURER PROFITS SHOOT UP AS “HARD MARKET” OF SOARING COMMERCIAL INSURANCE RATES COMES TO AN END

Washington, D.C.—The Consumer Federation of America (CFA) today released an analysis of recent insurance price trends showing that rate increases in commercial property insurance have slowed to a standstill and in some cases are starting to drop. This signals an end to the “hard market” of sharp rate increases, less competition and cutbacks in coverage that commercial insurance buyers have faced over the last two years. CFA also noted that profits for commercial insurers have increased very sharply, signaling possible rate gouging of consumers.

Rates have increased steadily for two years resulting in the profit jump now. There is some lag in the reporting of profits because of the annual nature of insurance renewals. Only one-fourth of a company’s increase in profits in a particular quarter will show up in overall profit results.

In the first six months of 2003, insurers have seen their net income after taxes jump from \$4.4 billion a year ago to \$14.5 billion now. Their retained earnings (called “surplus”) rose by \$28.1 billion. Commercial lines insurers also saw their loss ratios – the portion of premium dollars used to pay claims -- fall from 97 percent at the second quarter of 2002 to 62 percent a year later¹.

“The good news for consumers is that the end of outrageous insurance rate increases is here,” said J. Robert Hunter, CFA’s Director of Insurance and former Texas Insurance Commissioner. “The bad news is that those rate increases were likely fueled by unjustifiably high profits, rather than a legitimate increase in insurer costs.” “These remarkable results will please stockholders but should provide cause for concern consumers and state regulators about whether there has been price gouging,” said Hunter.

According to media reports, America’s largest commercial insurance group, AIG, saw its profits leap in the third quarter by \$0.5 billion, from \$1.8 billion to \$2.3 billion. Travelers, the third leading writer, saw a 28 percent jump in profits in the third quarter, from \$332 million to \$426 million. St. Paul, the fourth leading writer, had a jump in profits of 240 percent, from \$63 million a year ago to \$214 million in the third quarter of 2003. Other leading writers, including the second largest U.S. commercial insurer, Zurich, have yet to report.

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¹ Source: Insurance Services Office.

These astonishingly high profits have occurred although many large insurers have significantly increased their reserves. “If past is prologue, it will not be long before we see these excessive reserves work their way to the insurers’ bottom lines,” Hunter stated. For instance, in the last hard market, medical malpractice insurers raised reserves (and thereby cut reported profits), only to reduce reserves (and increase reported profits) over the next few years. Reserves in 1986 were set at \$3.8 billion but these reserves ultimately paid out at only \$2.6 billion, meaning that reserves were overstated by \$1.2 billion (43 percent) and profits were similarly understated.

CFA released the latest price results, which were calculated using a quarterly survey by the Council of Insurance Agents and Brokers.

	<u>2001</u>	<u>2Q 2002</u>	<u>3Q 2002</u>	<u>4Q 02</u>	<u>1Q 03</u>	<u>2Q03</u>	<u>3Q03</u>
<u>OVERALL RESULTS</u>							
Small Comm. Accounts	+21%	+20%	+15%	+08%	+11%	+07%	+04%
Mid-size Comm. Accounts	+32%	+27%	+22%	+19%	+14%	+08%	+05%
Large Comm. Accounts	+36%	+34%	+25%	+21	+15%	+08%	+04%
<u>SPECIFIC LINES</u>							
Business Interruption	+30%	+21%	+16%	+13%	+09%	+05%	+03%
Construction	+46%	+44%	+30%	+34%	+22%	+17%	+13%
Commercial Cars	+28%	+27%	+18%	+18%	+15%	+11%	+06%
Property	+47%	+42%	+24%	+21%	+12%	+06%	+01%
General Liability	+27%	+24%	+18%	+19%	+14%	+11%	+07%
Umbrella Liability	+56%	+52%	+36%	+34%	+26%	+18%	+11%
Workers’ Compensation	+24%	+26%	+19%	+21%	+17%	+15%	+10%
D&O			+35%	+32%	+29%	+21%	+16%
Employment Practices			+19%	+32%	+19%	+17%	+12%
Medical Malpractice			+61%	+63%	+54%	+48%	+28%
Surety Bonds			+14%	+18%	+18%	+13%	+06%
Terrorism				+63%	+13%	+06%	+02%

Hunter pointed out that the overall changes are barely more than inflation, signaling an end to the hard market. “Even Medical Malpractice price increases have fallen by half and will also be ending soon,” he said. Terrorism insurance rates have stabilized but, given that the federal government has assumed at least half of the risk, that is still an unwelcome result. “Terrorism insurance prices would be dropping if insurers were properly crediting the taxpayer subsidy they enjoy,” Hunter said.

Some insurance analysts have reported an actual decline in some insurance rates for the third quarter. According to an analysis prepared by Marsh, Inc., the world’s largest insurance broker, commercial property rates declined by between 5 percent and 15 percent on average.

CFA is a non-profit association of more than 300 organizations that, since 1968, has sought to advance the consumer interest through advocacy and education.