PCI
Property Casualty Insurers
Association of America
Shaping the Future of American Insurance

PCI REBUTTAL TO
CITIZEN ACTION OF WISCONSIN REPORT:
"False Claims: New Consumer Protections and the Cost of Auto Insurance in Wisconsin"

Introduction

This PCI document serves as a rebuttal to the report, "False Claims: New Consumer Protections and the Cost of Auto Insurance in Wisconsin," prepared by Robert Kraig, executive director of Citizen Action of Wisconsin. The report claims that new auto insurance-related consumer protections enacted last session as part of the 2009-2010 state budget did not substantially increase premiums, and that the auto insurance industry has run up excessive profits that ought to be returned to consumers in the form of lower rates.

In general, the Citizen Action report is incomplete and misleading; Mr. Kraig accuses the insurance industry of using a "say anything" approach to distort the public debate, yet he himself has done just that. He has taken comments out of context and extracted other pieces of information in the hopes of inciting policymakers and consumers.

Analyses by the industry are accurate, based on auto insurance-related provisions found in the proposed budget bill. Moreover, insurers have *not* made excessive profits.

Report findings of Citizen Action, followed by PCI's responses, are as follows:

- *"Insurance industry spokespersons have repeatedly asserted that the new minimum coverage requirements would increase auto insurance premiums by at least '33 percent.'"* (Executive Summary, p. 1)

  PCI Response
  In reference to "mandated insurance limits," the Feb. 17, 2009 Wisconsin Insurance Alliance press release to which Citizen Action refers states: "Responsible low and middle-income families paying the current minimum auto insurance levels would see their costs rise by 33% to 43%." This statement is similar to a finding by PCI which concluded: "If F.R. (financial responsibility) limits were raised to 100/300/25, policyholders who carry the basic limits... would have an increase of about 30 to 39 percent in their overall liability premiums."

  PCI noted that this particular group of policyholders represents "about 20 to 25 percent of all insured drivers in Wisconsin." That is, the remaining 75 to 80 percent of drivers in the state would not be affected. In fact, it was specifically mentioned by PCI that "drivers who already have limits of 100/300/25 or higher...would not be hurt by the initiative." *(Underlines added.)*

  The WIA and PCI results did not apply, and were never intended to apply, to the entire driving population in Wisconsin. Furthermore, they reflected the change from 25/50/10 to then-proposed 100/300/25 limits. Since the required minimum limits were subsequently changed to 50/100/15, i.e., lower than those originally proposed (and analyzed), it should not be surprising that the actual impact on the minority of drivers is lower than the industry's original determination.

  In his report, Mr. Kraig claims that he evaluated rate increases reported to the insurance commissioner's office; however, these increases are believed to reflect companies' overall book of business.[1] He presents no evidence of the actual rate increases applied only to those individuals with minimum limits who were affected by the change in F.R. limits.

- *"Wisconsin auto insurance companies are highly profitable. Over 40% of premium dollars go directly into insurance industry coffers. In 2009 this amounted to $1.2 billion dollars not paid in claims."* (Bullet #4, p. 1)

  PCI Response
  The above statements, found in the Executive Summary (which is typically read more often than an entire report), are incorrect, incomplete and extremely misleading. It is not until p. 4 that Mr. Kraig mentions: "For the top 20 Wisconsin auto insurance companies...., the average loss ratio is 57%, meaning that 43% of premium dollars are available for profits, company overhead and reserves." *(Underline added.)*

  It appears that Citizen Action intends to convince readers that the $1.2 billion dollars is kept as profits. Mr. Kraig describes the "43%" as being *"...the insurers cut of auto insurance premium...."* (p. 5) and that *"The auto insurance business is over twice as profitable as the health insurance business (43% vs. 18.4%), generating $1.2 billion a year in net revenue over claims..."* (p. 6).[2] In attempting to mislead the reader, the author himself has become confused as he first mentions that the 43 percent goes toward company overhead and reserves in addition to profits, but on the following two pages discusses this amount as if it represents profits alone.

  In actuality, based on data compiled by the National Association of Insurance Commissioners, PCI has determined that Wisconsin's auto insurance underwriting profit in 2009 is only 6.7 percent of premiums. This amount translates into about $150 million, which is 88 percent less than Mr. Kraig's finding of $1.2 billion. Insurance companies are expected to make some profit from their business; 6.7 percent of premiums is not an unreasonable return and can hardly be called "out-sized," especially when 24 other states have had higher underwriting profits than Wisconsin.[3]

- *"Over the last two decades, Wisconsin auto insurance industry profits have been 25% above the national average."* (Bullet #5, p. 1)

  PCI Response
  On p. 4, the Citizen Action report states that "...Wisconsin auto insurance industry profits were 10% per year between 1997-2006, which (are) 25% above the national average of 8.1% for the same period." First of all, there is a discrepancy in the time period mentioned in the two spots – the finding in the Executive Summary (p. 1) is incorrect; examining the source [Consumer Federation of America (CFA)] used by Mr. Kraig, the actual period in question is only *one decade* and not two.

  Of greater concern, however, is the fact that the statement in the Executive Summary again leaves out critical information, i.e., the actual profitability numbers themselves. While 10 percent is 23.5 percent

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[1] Companies' rate filings most likely reflected not only changes implemented by the new law, but the latest loss trends as well. PCI does not dispute Citizen Action's finding that "2010 auto insurance rates in Wisconsin were flat," since losses have dropped 13.4 percent since 2001 (Source: Fast Track Monitoring System).

[2] PCI does not and cannot confirm the health care profit of 18.4 percent.

[3] NAIC, *Profitability Results By State By Line, Ten-Year Summary 1999-2008;* although Wisconsin's profit of 6.7 percent reflects 2009, the comparison of profits between this state and others is based on a 10-year average, 1999-2008 (2009 underwriting profits are not yet readily available for other states).

above 8.1 percent,[4] even the CFA report mentions that Wisconsin's profits are "within a 2 percent range of the national average." Again, it appears that Mr. Kraig's use of the phrase "25% above" is intended to provide shock value, since the phrase "within a 2 percent range" would elicit little or no reaction. This is another example where the true profitability picture is incomplete and distorted, especially to those who read only the opening summary.

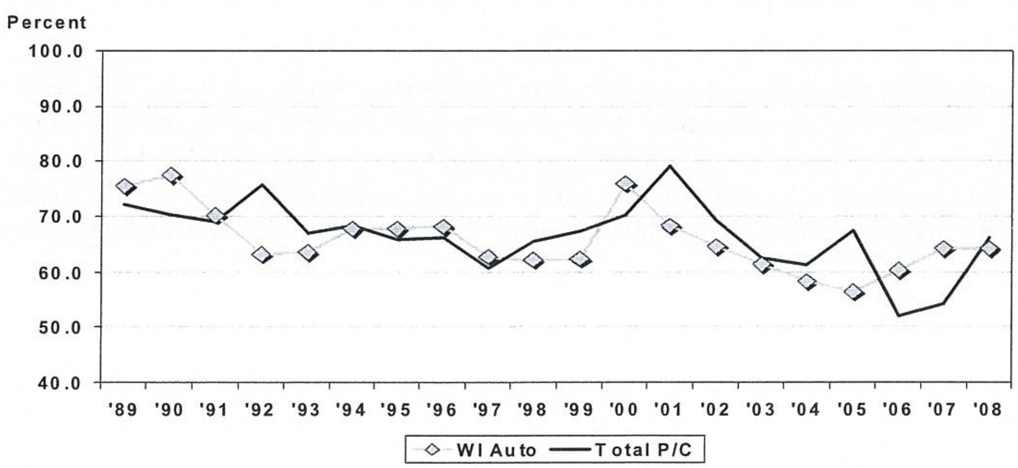
Using the latest available information, 10-year average profits (1999-2008 return on net worth) for total auto insurance are 8.9 percent for Wisconsin and 7.5 percent for the nation.[5] In other words, Wisconsin's 10-year average profit is now only 1.4 percentage points higher than the norm.

- *"Property/casualty insurers have steadily reduced their loss ratios by over 20% over the last two decades, which means they pay less and less back to consumers and keep more for profits and overhead."* (p. 5)

PCI Response

Contrary to the information extracted from the CFA report, loss ratios for property/casualty insurers (countrywide) have *not* been "steadily reduced...by over 20% over the last two decades." This is not the case even for Wisconsin auto insurers, as shown below. Instead, there has been some fluctuation throughout, whereby differences between the highest and lowest ratios are about 20 points or more. For the most part, loss ratios have been relatively stable falling into the expected mid-to-upper 60 percentile range. Clearly, loss ratios have not changed so much over time so that insurers are now paying "less and less back to consumers" and keeping "more for profits and overhead" compared to 20 years ago.

Wisconsin Auto and Total Countrywide Property/Casualty



Source: NAIC, loss ratios exclude loss adjustment and underwriting expenses

The general stability in loss ratios has been due to Wisconsin's use-and-file rate regulatory law. Under this type of system, companies are able to respond to changing loss trends more quickly than under a prior approval mechanism. They can price their products more accurately, as targeted loss ratios better match

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[4] The Consumer Federation of America's 8.1 percent profit for the national average should actually have been 8.4 percent, making the differential between Wisconsin and countrywide even smaller.

[5] NAIC, *Profitability Results By State By Line, Ten-Year Summary 1999-2008*

actual loss ratios. Hence, claimants have been reimbursed fully, up to the limits, and insurers have been able to cover their operating expenses and still make some profit.

- *"...property/casualty insurers have overcharged consumers over $200 billion over the last 4 years, or $1,720 for every family in the United States."* (p. 5)

  PCI Response
  Once again, Citizen Action obtained its information from a CFA report that discussed redundant loss reserves from an earlier time period. In order to avoid insolvency, insurers need a margin of safety to cover unexpected losses, so there are times when reserves must be redundant to offset reserves when they are deficient (also, note that reserves are not entirely funded through consumer premiums, but through investments).

  According to A.M. Best Company, "the industry's core undiscounted reserves are believed to be slightly redundant by $1.9 billion at year-end 2009."[6] This amount, reflecting today's environment, is much smaller than the $53 billion redundancy cited by the CFA. As such, Citizen Action's computation of overcharging customers by "over $200 billion...or $1,720 for every family" is based on out-of-date (and potentially misleading) information.

  It is also interesting to note that the CFA report stated: "Americans have been overcharged...<u>$870 per household</u>...," using the "ultra-conservative estimate of $100 billion in excessive surplus and reserves." Yet Mr. Kraig presents a finding of "over $200 billion, or <u>$1,720 for every family</u>." *(Underlines added.)* Again, this is an example of Citizen Action's apparent intention to exaggerate for the purpose of shocking the reader and distorting the truth.

Conclusion
The insurance industry's campaign opposing the "Truth in Auto Insurance" provisions was not "outrageously misleading." Findings were cited, based on analyses of the provisions in the bill, and they were explicitly referenced in relation to these changes. Based on loss ratios compiled by the NAIC, Wisconsin's auto insurance rates have been adequate and consumers have not been overcharged, as Citizen Action would have people believe. Insurers in Wisconsin certainly have not had "record profits" that are excessively higher than average.

*The **Property Casualty Insurers Association of America (PCI)** is a trade association consisting of more than 1,000 insurers of all sizes and types. Its members represent 37.1 percent of the total general insurance business and 42.8 percent of the total personal auto business in the nation. In Wisconsin, PCI members represent 64.5 percent of the personal auto market.*

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[6] *Business Insurance*, "Property casualty reserve releases a concern: Analysis," September 14, 2010