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NEW YORK INSURERS OVERPRICE POLICIES AND UNDERPAY CLAIMS, LEADING TO RECORD PROFITS

--Consumer Groups Call on New York Insurance Superintendent to End Overcharges that are Among the Worst in the Country--

Property/casualty insurers have systematically overcharged New Yorkers and reduced the value of home and automobile insurance policies over the last five years, according to data released today by the Consumer Federation of America (CFA), Consumers Union, and the New York Public Interest Research Group (NYPIRG). The groups found that overcharges for home and auto insurance in New York were worse than in most other states. Nationally, CFA estimates that insurers have overcharged each household by at least $870 since 2004.

A CFA study released earlier this year found that property/casualty insurance companies are paying out lower claims in relationship to the premiums they charge Americans ("loss ratios") than at any time in decades. The situation is even worse in New York, where loss ratios for personal lines of insurance in the last five years have been well below the national average, especially for home insurance. The loss ratio for home insurance sold from 2002 through 2006 was an astonishingly low 46 percent, 16 points lower than the historically low national average, ranking New York 44th in the country. New Yorkers fared only a little better when purchasing auto insurance, with the state ranking 34th. (See chart below.)

"In the last quarter century, New York has gone from being one of the best to merely mediocre in protecting consumers from unfair insurance rate hikes," said J. Robert Hunter, the Director of Insurance for CFA. Hunter is an actuary, former state insurance commissioner, and former federal insurance administrator.

NEW YORK	LOSS RATIO: 5-YEARS ENDED 12/31/2006	5-YEAR STATE RANKING	LOSS RATIO: 3-YEARS ENDED 12/31/2006
US-all lines	63%		61%
NY-all lines*	60%	20/ 51	57%
US-home	62%		62%
NY-home	46%	44/ 51	45%
US-PP Auto	61%		59%
NY-PP Auto	55%	34/ 51	50%

"The insurance industry nationally reaped record profits in 2004 and 2005, despite significant hurricane activity," said Hunter. "Profits in 2006 rose to unprecedented heights and will likely come in at near-record levels in 2007," he said. "Unfortunately, a major reason why insurers have reported record-high profits and low losses in recent years is that they have been methodically overcharging consumers, cutting back on coverage, underpaying claims, and getting taxpayers to pick up some of the tab for risks the insurers should cover," said Hunter.

In the early 2000s, insurers sharply increased premiums for homeowners and commercial insurance and reduced or eliminated coverage for tens of thousands of Americans in coastal areas, such as Long Island. Insurers have also succeeded in convincing Congress to continue taxpayer subsidies for terrorism losses and are seeking additional subsidies for catastrophe insurance.

"At a time of record profits for insurance companies and falling claims payments for consumers, New York consumers should see some relief from high rates," said Chuck Bell, Programs Director for Consumers Union, publisher of Consumer Reports, based in Yonkers, NY. "We strongly urge New York Superintendent of Insurance Eric Dinallo to investigate why consumers are getting less for the dollars they pay for auto and homeowner's insurance, and to use his office's full authority to make sure the rates consumers pay are fair."

"Insurance companies charge more and pay out less, which is bad news for homeowners and drivers," said NYPIRG Legislative Counsel Russ Haven. "New York needs to level the playing field by creating an independent consumer advocate office to represent average insurance customers and to pass legislation cracking down on the unfair claims settlement practices insurers use to deny claims outright and settle other claims on the cheap."

<u>Policy Recommendations</u>

1. Lower home and auto insurance rates. The State Insurance Department should begin the process of carefully scrutinizing high home and auto insurance rates and requiring insurers to reduce them, as the State of California has done in the last two years.

2. Create an Insurance Consumer Advocate. New York should follow the lead of states like Michigan, Texas, and Georgia by providing an institutional voice for insurance consumers to counterbalance the extraordinary resources of the insurance industry. **The Governor should use his executive powers to create an Office of Public Insurance Consumer Advocate to ensure that consumer and small-business policyholders will be represented in all insurance matters before the Insurance Department, including rate-setting and regulatory decisions, and to provide consumers with information and assistance in selecting and interacting with insurers.**

3. Better oversee the use of socio-economic factors used to set rates, like credit scoring. Insurers have been able to maintain excessive pricing through the use of such information as consumers' credit scores, prior insurance limits, occupation, and educational attainment. This information is opaque to consumers and has not been adequately examined by most regulators to ensure that it results in the setting of fair rates.

4. Increase scrutiny of computer-based claims settlement procedures. The use of computer procedures has shielded insurers from scrutiny of questionable claims practices, while many state insurance regulators have looked the other way. The State Insurance Department should not allow computer-based claims practices that deny the full payment of legitimate claims.

5. Consider making state-backed reinsurance available. New York should consider joining with other coastal states to offer reduced-cost reinsurance to private insurers, using the recent Florida legislation as a model. This practice could significantly improve access to home insurance on Long Island and lower rates.

6. Better regulate the use of catastrophe modeling. New York should follow Florida's example in blocking firms from using short-term rather than long-term catastrophe projections as the basis for establishing insurance rates. Coastal states should consider uniting to develop a coastal weather modeling system of their own to test the accuracy of private projections and to evaluate the fairness of insurer rate requests.

7. End unjustified geographic discrimination. If any insurer fails to market a line of insurance that it is selling in other parts of New York, the state should consider convening hearings to determine if the insurer's license should be revoked for geographic discrimination.

8. Review homeowner's insurance policy forms for hidden provisions. The State Insurance Department should carefully review the policy forms and exclusions they have allowed to become part of homeowner's policies, and require insurers to offer clear disclosure about exclusions and lower rates to reflect decreased risk that results from these exclusions. Examples of exclusions that insurers have used include the elimination of mold coverage, the elimination of coverage to meet building code requirements if damage to a building is too great, caps on replacement cost and anti-concurrent causation clauses, which removes coverage for a building if a non-covered event such as a flood occurs at about the same time.

9. Require insurers to disclose more information about certain practices to ensure that they are serving the needs of all of New York's communities. The State Insurance Department should require insurers to provide geo-coded data about the number of policies they have in effect, applications received and denied, polices cancelled or terminated, claims filed, claims approved and denied, and the amount of claims paid.

For More Information:

- Letter to New York Insurance Superintendent Dinallo on overcharges: http://www.consumerfed.org/pdfs/White_Paper_2008_NY_Letter.pdf
- News release on national study of insurance industry profits and payouts: http://www.consumerfed.org/pdfs/2008_INSURANCE_RELEASE_FINAL.pdf
- National study of insurance industry profits and payouts: www.consumerfed.org/pdfs/2008Insurance_White_Paper.pdf.

Consumer Federation of America (CFA) is a non-profit association of 300 consumer groups, with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer's interest through advocacy and education.

Consumers Union is the nonprofit publisher of Consumer Reports and ConsumerReports.org, based in Yonkers, NY. Consumers Union was founded in 1936, with a mission to work for a fair, just, and safe marketplace for all consumers.

The New York Public Interest Research Group (NYPIRG) is New York State's largest non-profit, non-partisan student directed research and advocacy organization. NYPIRG's prime areas of concern are consumer protection, environmental preservation and social justice.