Insurers Flip the 'Crisis' Switch

By Harvey Rosenfield

Like last year's energy debacle in California, the insurance crisis now afflicting the nation is the product of artificial price and supply manipulation compounded by grossly inadequate regulation.

Insurance companies say soaring claims have made them lose billions of dollars, necessitating premium hikes and forcing some companies to leave the market. But these "losses" are invented.

Flawed accounting practices permit insurers to make inflated projections of future claims and then treat these phantom amounts as losses for tax and regulatory purposes.

In fact, on average, from 1996 through 2001, insurers nationwide paid out only 66 cents in claims for every dollar they took in homeowners insurance premiums. For medical malpractice coverage — the spiraling cost of which has corralled the medical profession into backing limits on victims' right to sue — the figure is 69 cents.

The mythical onslaught of "killer mold" in homes, along with such real disasters as tornadoes and even 9/11, are merely excuses for insurance company profiteering. As the chair of the nation's largest business insurer told investors: "It's a field day for A.I.G., and we're going to play the field."

Independent examination of their books shows that some insurers are hurting, but the culprit is not claims. It's the stock market.

In the 1990s, insurers sought to cash in on the boom. They abandoned their conservative practice of investing in stable bonds. The bear market cost property-casualty insurers $10.8 billion last year. And they lost hundreds of millions of dollars in the stocks of companies such as Enron and WorldCom.

Like energy companies, they manufacture losses.

Similarly stricken small investors and retirees now must work harder or dig into savings. But the insurers can dig into our pockets, raising premiums to cover their losses. That's why their profits are up 66% this year.

The current crisis is a repeat of the mid-1980s, when insurance companies blamed a "litigation explosion" for skyrocketing premiums and successfully lobbied for restrictions on lawsuits and jury awards in all 50 states. But the huge losses projected by the insurers never materialized. And, contrary to their promises, premiums never came down after tort "reforms" were enacted.

This time around, California is in far better shape than the rest of the nation. In 1988, voters passed Proposition 103, imposing the toughest regulation of insurance rates and practices in the nation. Proposition 103 limits the expenses, projected claims and profits that insurers can pass on to consumers and allows the public to challenge insurers that cook their books.

For example, when an insurance company recently requested a $2,000 increase in the annual premium it charges California doctors for malpractice coverage, our organization challenged it.

Rather than open its finances to independent scrutiny, the company tried to withdraw its request. Physicians could save up to $18 million if our challenge is successful.

Insurers are working hard to prevent California's success from spreading. Even as they are pressing for higher premiums, the companies are conniving to undo other states' regulation of their excessive rates, arbitrary underwriting rules and unfair claims practices.

The National Assn. of Insurance Commissioners, made up of state regulators but funded by insurance companies, recently endorsed an industry plan to deregulate life insurers. It calls for the transfer of all government authority — executive, legislative and judicial — from the states to a private national agency dominated by the insurance industry.

President Bush joined the insurers' campaign for deregulation when he signed legislation requiring taxpayers to bail out insurers in the event of another serious terrorist attack. Hidden in the new law is a provision that strips state regulators of their authority to block unjustified rate increases for terrorism insurance.

California's experience is instructive for other states. In California, deregulation of the state's electricity system, championed by utility companies and ideologues, was a license to steal $70 billion. By contrast, stringent, utility-style regulation of the insurance industry has saved the state's consumers tens of billions of dollars.

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