

## Insurers rip off consumers, group says

### Firms boost profits by overcharging policyholders, underpaying claims, study finds

Marcy Gordon, Associated Press

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U.S. insurance companies systematically overcharge customers and underpay home and auto claims to pad their already-fat bottom lines, a consumer group said Thursday.

The Consumer Federation of America's insurance director, Robert Hunter, said insurance companies have enjoyed robust profits and contained losses largely by "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."

Hunter's comments came with the release of a study by Consumer Federation, Consumers Union and several other consumer organizations that said the industry's overcharges reached an average \$870 per U.S. household over the past four years.

The loss ratio for property-casualty insurance companies, or the percentage of premiums paid out to policyholders as benefits, was 54.6 percent last year, according to the study, up from 53.3 percent in 2006 but far below the 75 percent level of the late 1980s.

The study - based on insurance industry data and companies' financial reports - estimates that the insurance industry's net income after taxes in 2007 will be \$65 billion, down from the record \$67.6 billion set in 2006 but above 2005's \$48.8 billion.

The industry has reaped those profits at the same time that consumers are receiving less money after filing claims, the consumer group said. A study released a year ago by the organization put forward similar conclusions.

The Consumer Federation urged state regulators to require insurance companies to offer a homeowners policy that covers all risks, prohibit insurers from restricting certain policies by geography, and review policy forms for hidden exclusions.

The insurance industry's biggest trade group defended the performance of its members.

"The absence of any major storm or earthquake has allowed insurers to post two modestly profitable years. But it wasn't long ago, 2004 and 2005, when our industry suffered record natural-catastrophe losses," Marc Racicot, president of the American Insurance Association, said in a statement.

Consumer Federation advised consumers to carefully review insurance policies they buy or renew to see if deductibles or exclusions could force them to pay for wind damage, mold or other problems. For people who don't live in coastal areas, the advice was simple: Shop around.

"Insurers have reduced much of the risk they face, allowing them to earn record profits even in years of severe hurricane activity," the report says. One way companies have shifted risk, it says, is by not renewing policies in certain areas.

The report singled out Allstate, which dropped hundreds of thousands of homeowner insurance customers in Florida and other coastal states after a quarterly loss of \$1.55 billion from the 2005 Gulf Coast hurricanes.

Allstate is emerging as the "most aggressive in refusing to renew homeowners' policies in the wake of Hurricane Katrina," the study says.



Insurance companies have received about \$4 billion in subsidies, the report says, since the federal Terrorism Risk Insurance Act took effect in November 2002 after insurers' costs from the Sept. 11 attacks hit \$32 billion.

The backstop under the act, in which the government agrees to reimburse insurers up to \$100 billion in the event of another attack by foreign terrorists, was extended for another seven years under legislation enacted by Congress last month and signed into law by President Bush.

**What policyholders get back from insurers**

The loss ratio, or the percentage of premiums paid out to policyholders as benefits, for six property- casualty insurance companies for the first nine months of the year:

Company	2007	2006
Allstate	51.6%	43.5%
American Int'l	53.8	50.9
St. Paul Travelers	45.5	46.8
Progressive	58.2	53.1
Berkshire Hathaway	58.6	56.1
Hartford	55.8	53.2

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/01/11/BUEIUD5T0.DTL>

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