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CONSUMER GROUP OFFERS FLAWED ANALYSIS OF U.S. INSURANCE MARKET

- The Consumer Federation of America's (CFA) January 10, 2008 study grossly distorted the current financial position of U.S. auto, home and business insurers.

- Indeed, the CFA incorrectly estimated that policyholder surplus in 2007 totaled $687 billion when the actual figure is about $530 billion—an error of 30 percent.

- Two major errors contributed to the CFA's $157 billion miscalculation:

  1) CFA misleadingly incorporated government-run insurers that sell workers compensation insurance and other products into their final retained earnings/policyholder surplus number and;

  2) CFA erroneously *double counted* billions of dollars in surplus on the books of individual insurers.

- Insurer profitability is necessary to maintain financial strength and credit ratings.

- The insurance industry's improved capital position will help insurers pay future large-scale catastrophe losses, which already saw three record highs this decade in 2001, 2004 and 2005, and to meet the higher capital requirements imposed on them by ratings agencies in the wake of storms like Hurricane Katrina, which produced an unprecedented $41 billion in claims payouts to 1.75 million policyholders.

- Losses paid by U.S. property/casualty insurers are increasing. Insurers paid $147 billion in total losses in 1987, $202 billion in 1997, and $293 billion in 2007—an increase of nearly 100 percent over 20 years.

- Total losses paid by insurers have *increased* in 18 of the 21 years from 1987 through 2007 (inclusive). All three years where declines were posted represented years with a sharp drop in catastrophe losses from the prior year (1993 after Hurricane Andrew in 1992; 1997 which recorded the lowest catastrophe losses during the past 20 years; and 2006—the year after Hurricane Katrina)

- Insurers are protecting more cars, homes and businesses than at any other time in U.S. history and have been an essential component of the country's economic growth engine for decades as employers, investors and taxpayers. Insurance is also the primary means of recovery after major catastrophes.

- The cost of most types of property/casualty insurance, with the exception of coastal property insurance, has remained relatively flat or fallen in recent years, with drivers nationwide benefiting from auto insurance rate reductions because of a highly competitive marketplace. Industrywide premium growth over the past three years (2005—2007) average just 1.1 percent. Zero percent growth in 2007 was the slowest since 1943.

- Property/casualty insurance premiums grew more slowly than the overall economy over the past four years, meaning that premiums as a share income are falling, leaving buyers with more cash in their pockets.

- The cost of insuring the median home in the U.S. remains very affordable at just 0.4% of its value, or less than $900 a year.

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