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Justice Defended, Justice Denied

Council on Litigation Management
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Download at www.iii.org/presentations

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Presentation Outline

- **Insurers Have Paid Trillions and Trillions on Millions and Millions of Claims**
  - Inconsistent with Thesis of *Delay, Deny, Defend*
  - The Dollars and Sense of Claim Payments
- **Claims Operations as a Profit Center?**
  - Assertion is Unsupported by the Facts
  - What is Really Happening to P/C Insurer Profitability?
  - Insurance Ratemaking 101: The (Solved) Mystery of the Falling Loss Ratio
- **Claims Management Software**
  - An absolute necessity in an era of rapidly rising medical costs and rampant fraud and abuse
  - No place for nostalgia
- **A Case Study: Catastrophe Losses**
  - Insurance is the fastest, most reliable means of recovery after disasters, large and small
- **Fraud: It's Real, It's Expensive (i.e., It's Really Expensive)**
  - *DDD* Asserts: Fraud = "Social Marketing" and is "Exaggerated"

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The Central Thesis of "*Delay, Deny, Defend*" Is Unsupported by the Facts

THE FACTS: The P/C Insurance Industry Pays Millions of Claims Totaling $1 Trillion in Claims Every 2-3 Years

With $12.6 Trillion of Paid Claims, Thesis Of a Book Like This Has to Be Challenged

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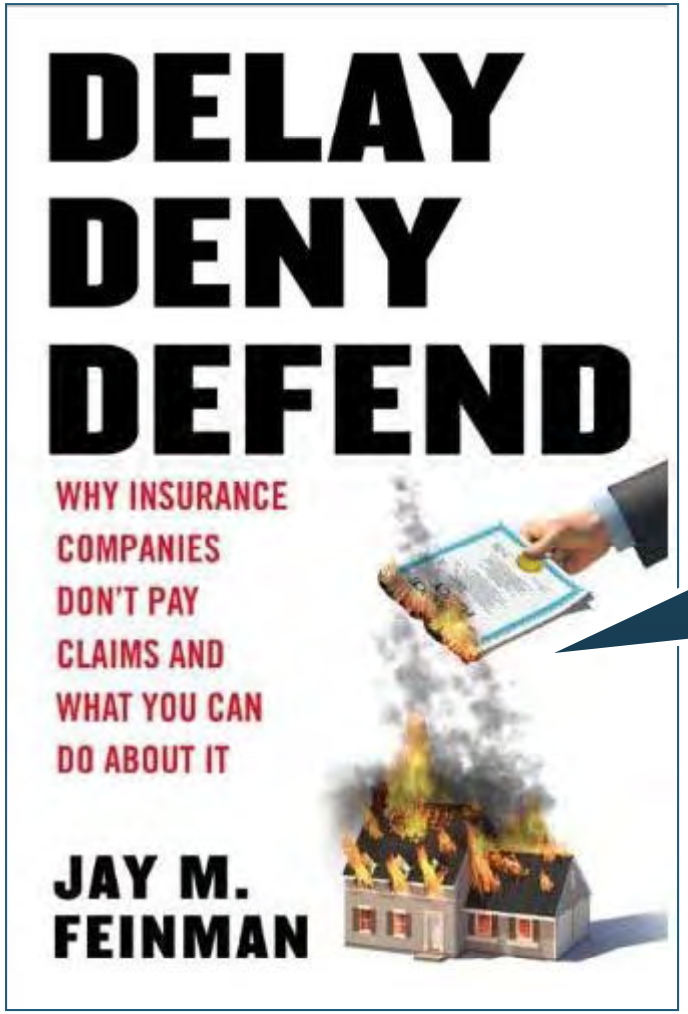
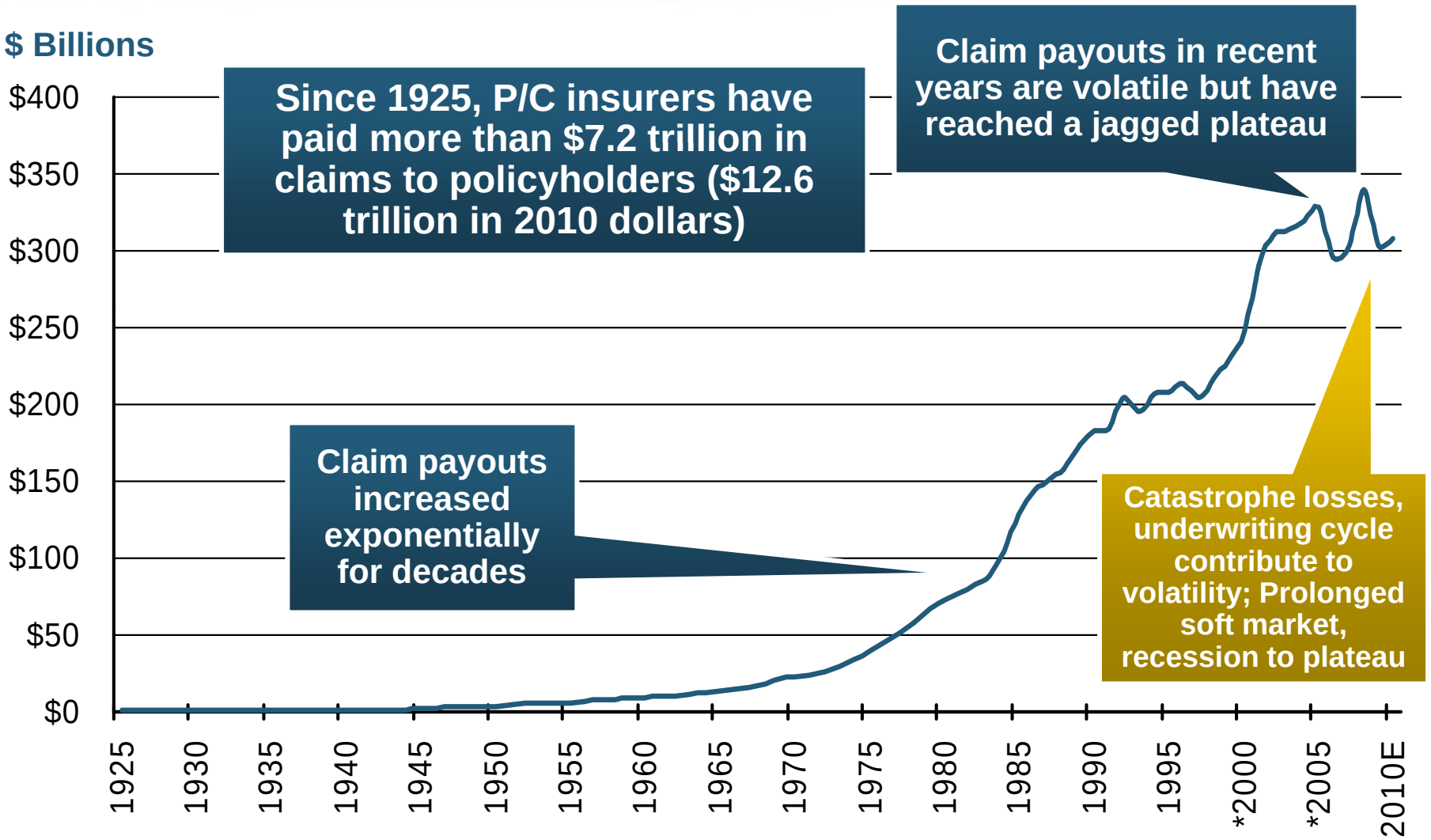


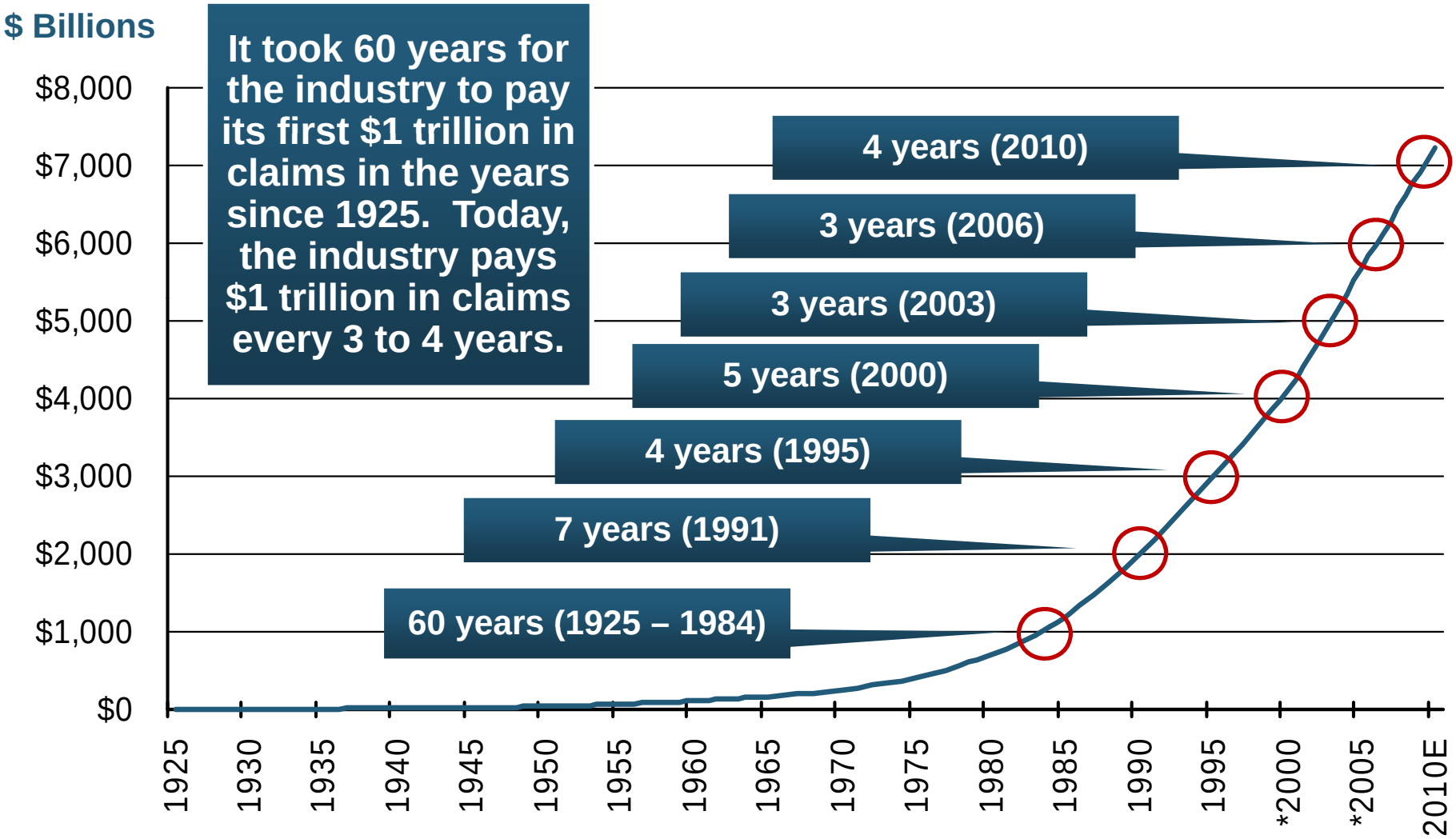
Delay, Deny, Defend **makes broad assertions based largely on anecdote and dated information. A more comprehensive and analytical approach debunks the book's central thesis that insurers seek to profit by squeezing consumers out the claims dollars that are due to them.**

Dollar Value of Claims Paid by P/C Insurers to Policyholders, 1925–2010E*



*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.
Note: Data are not adjusted for inflation.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

Cumulative Value of Claims Paid by P/C Insurers to Policyholders, 1925–2010E*



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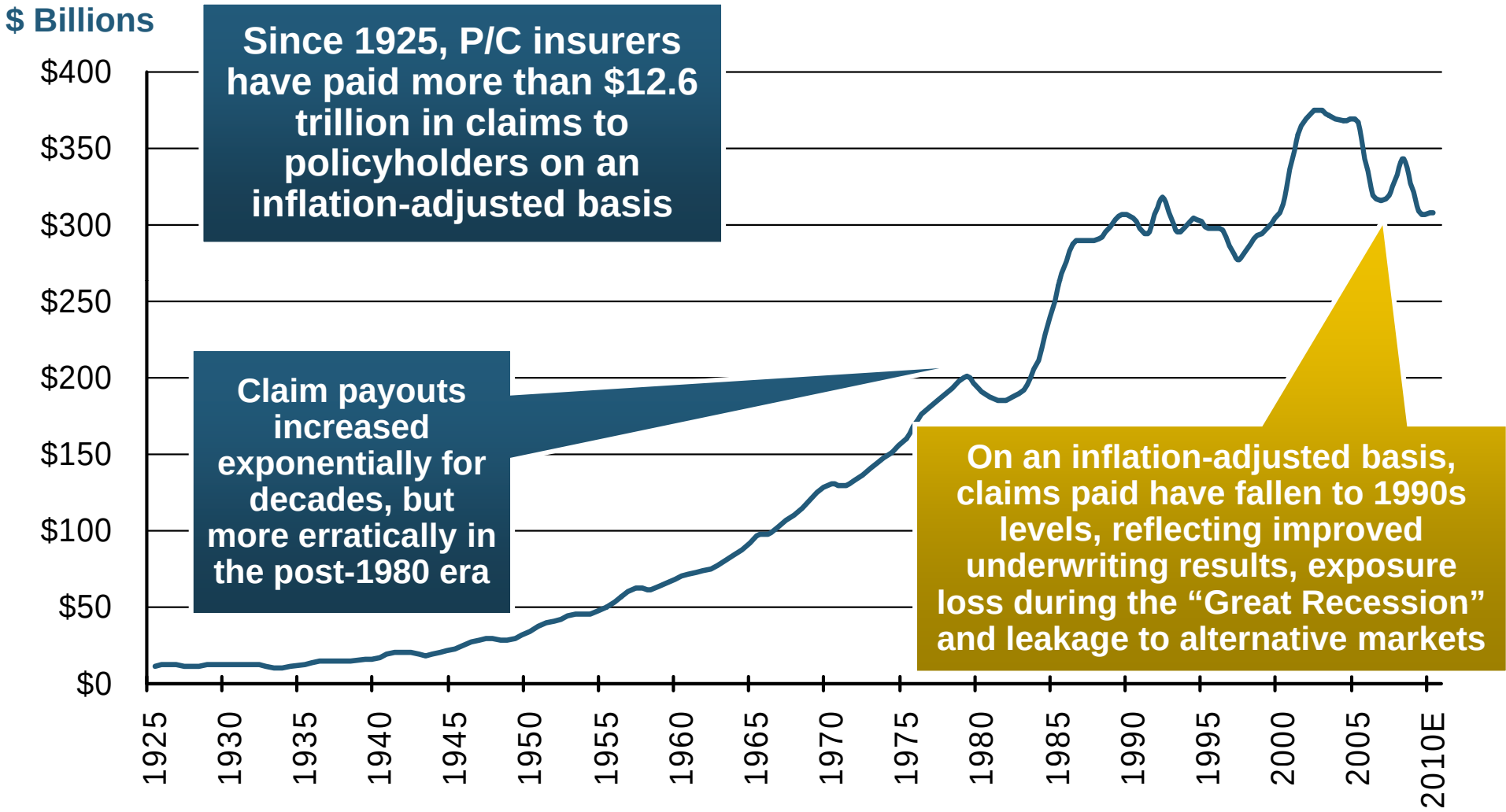
Sources: Insurance Information Institute research and calculations from A.M. Best data.

Inflation-Adjusted Dollar Value of Claims Paid by P/C Insurers, 1925–2010E*



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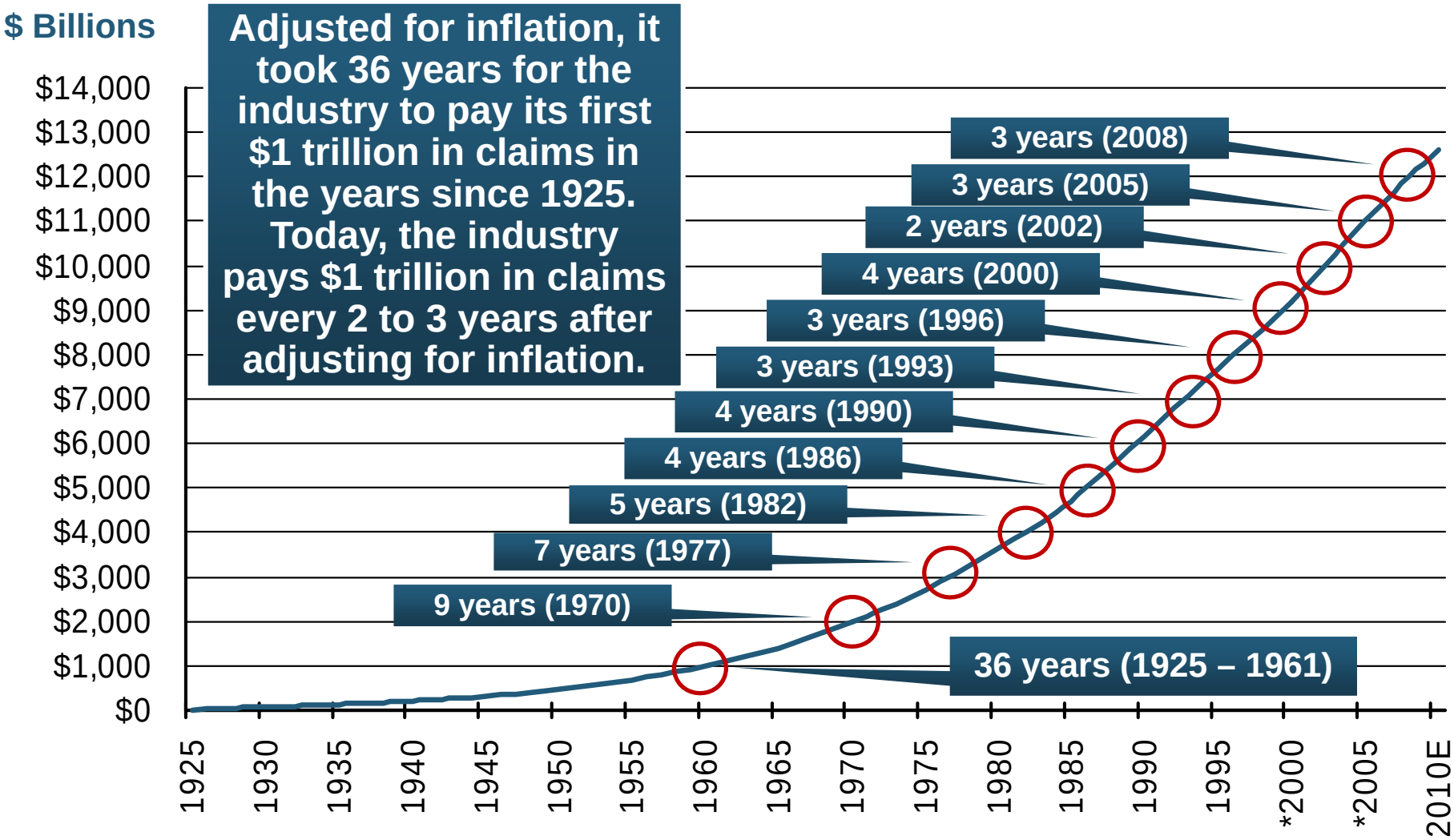
Cumulative Value of Inflation-Adjusted Claims Paid by P/C Insurers, 1925–2010E*



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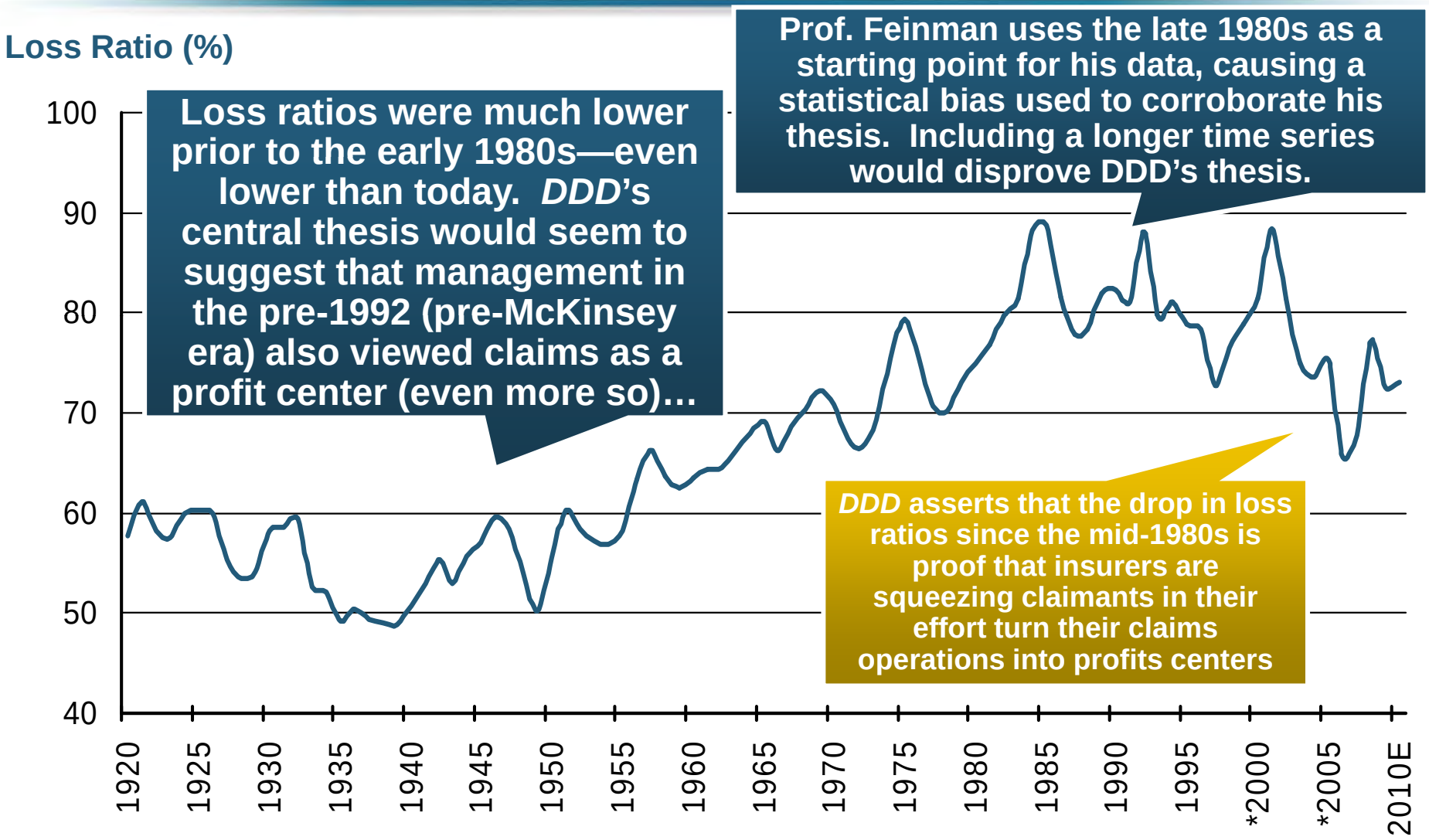
P/C Insurance Loss & LAE Ratio, 1920–2010E*



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Loss and LAE Ratio: 1920s – 2000s

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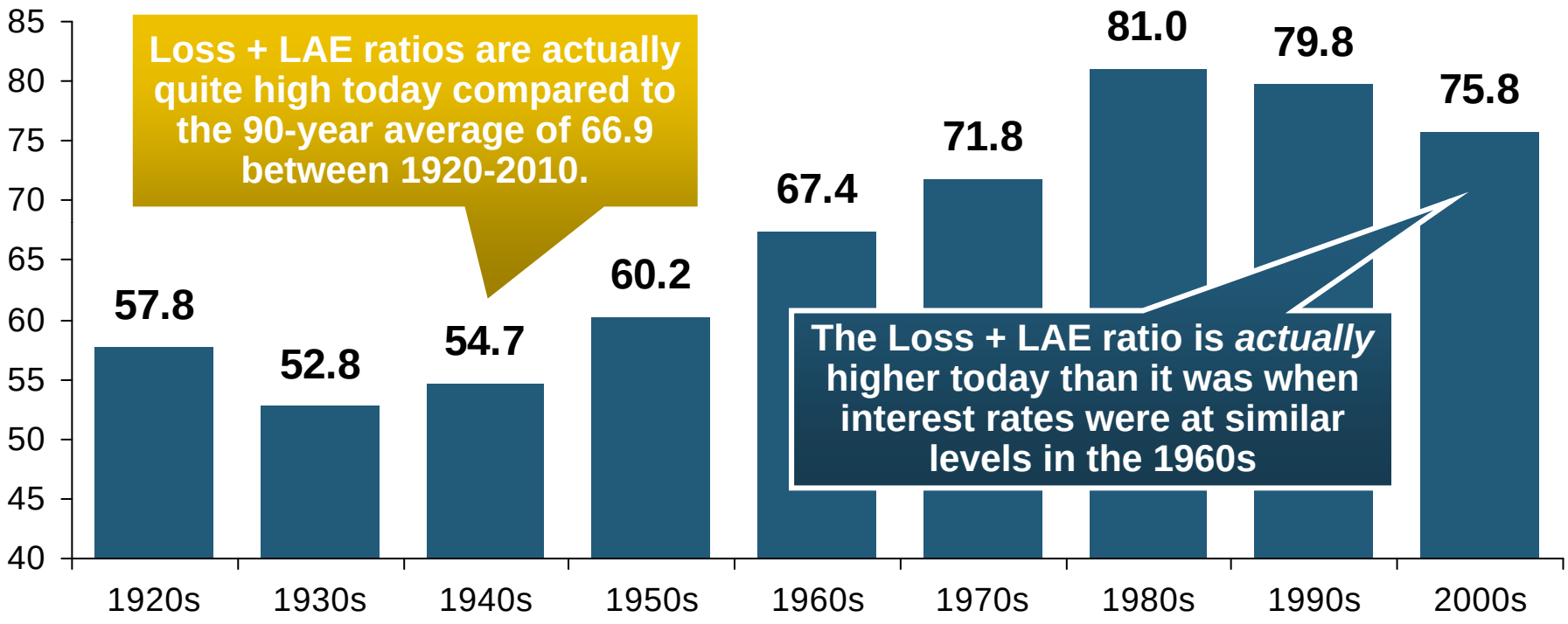
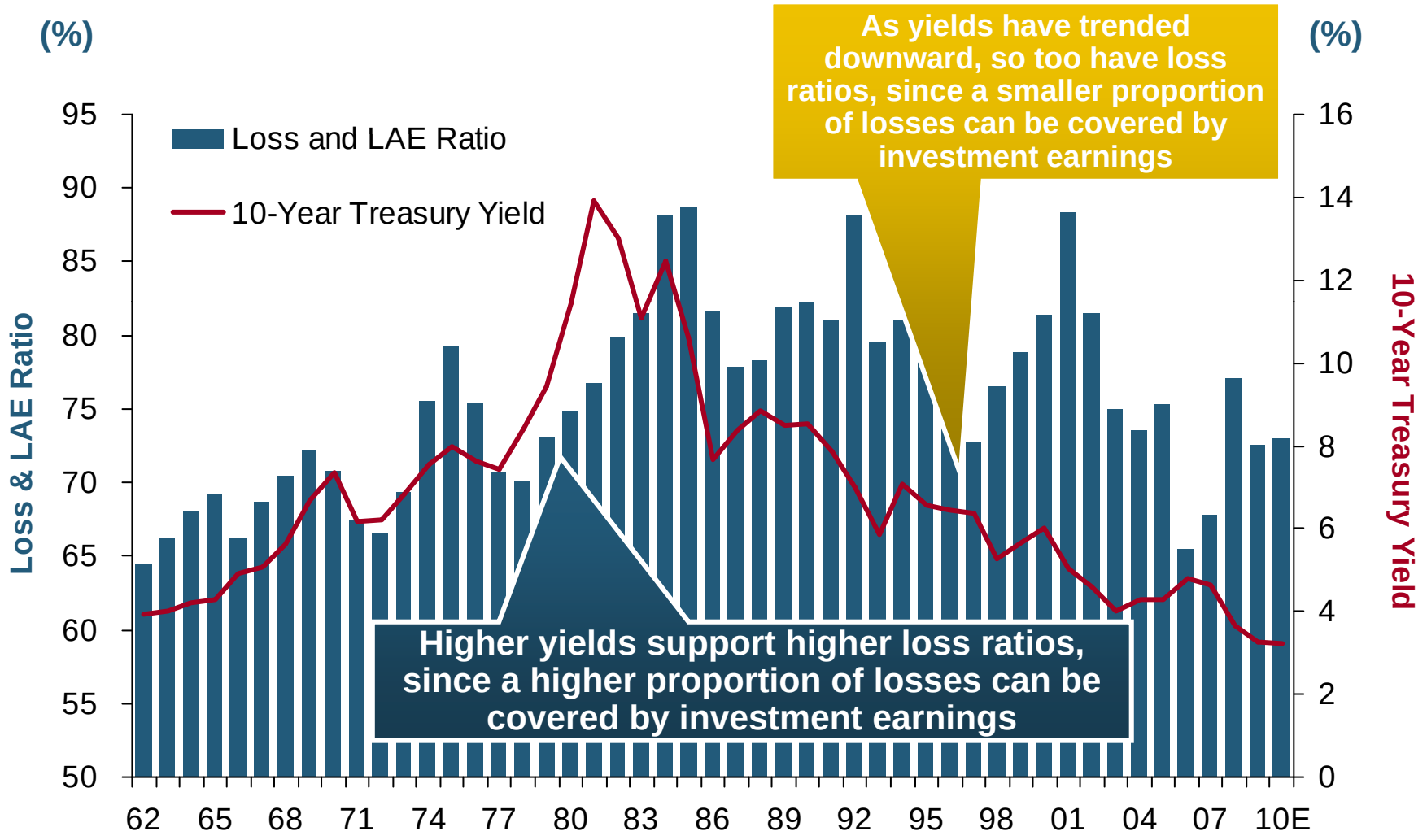
Loss + LAE Ratio



There is a Clear, Consistent Relationship Between Loss Ratios and Investment Yield Over the Span of Decades. Lower Loss Ratios in the 2000s Relative to the 1980s and 1990s Reflect the Reality of Investment Yields

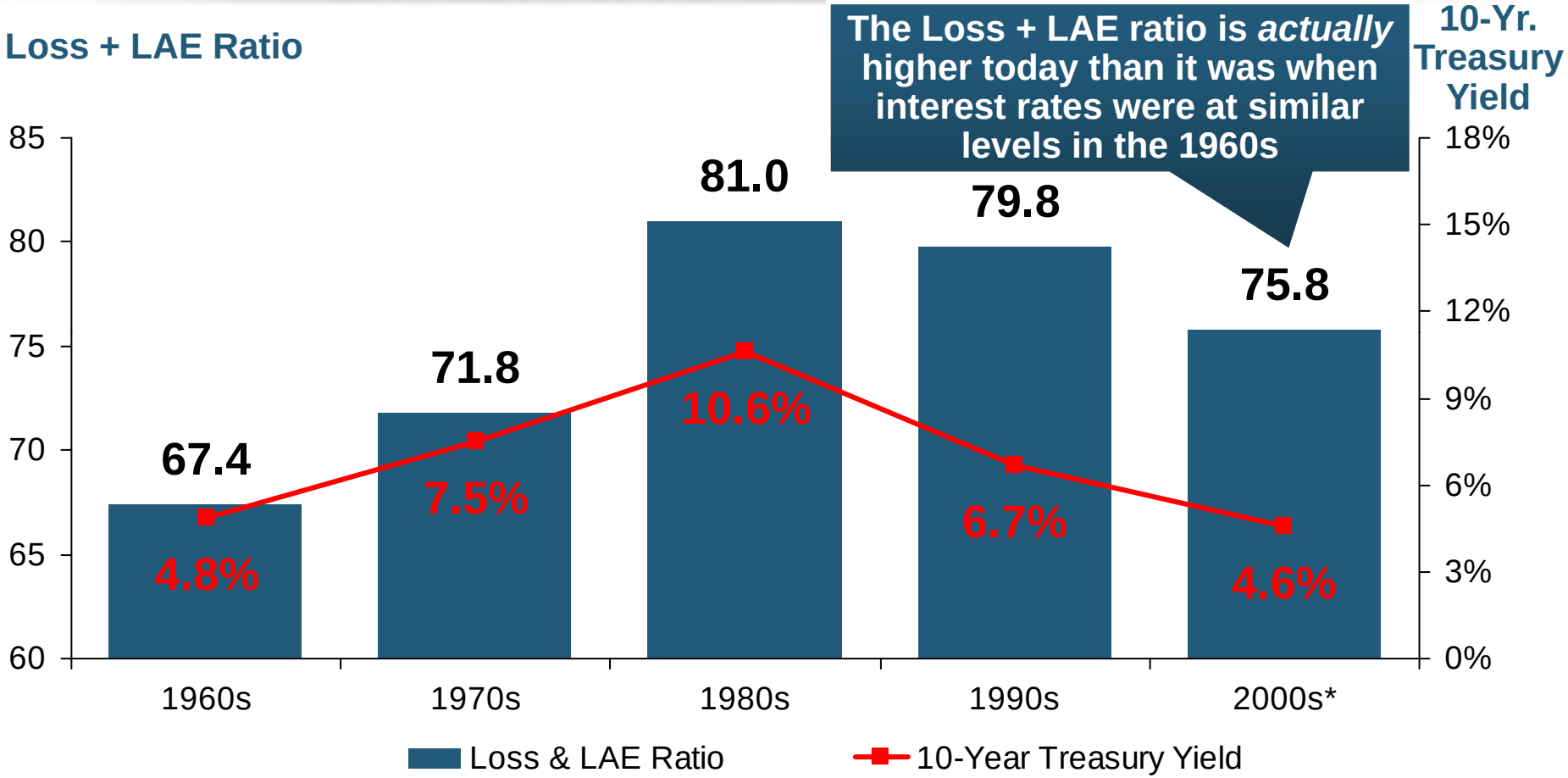
Sources: A.M. Best, Board of Governors of the Federal Reserve; Insurance Information Institute.

Loss and LAE Ratio vs. 10-Year Treasury Yield, 1962-2010



Sources: A.M. Best, Board of Governors of the Federal Reserve; Insurance Information Institute.

Loss and LAE Ratio vs. 10-Year Treasury Yield, by Decade: 1960s – 2000s



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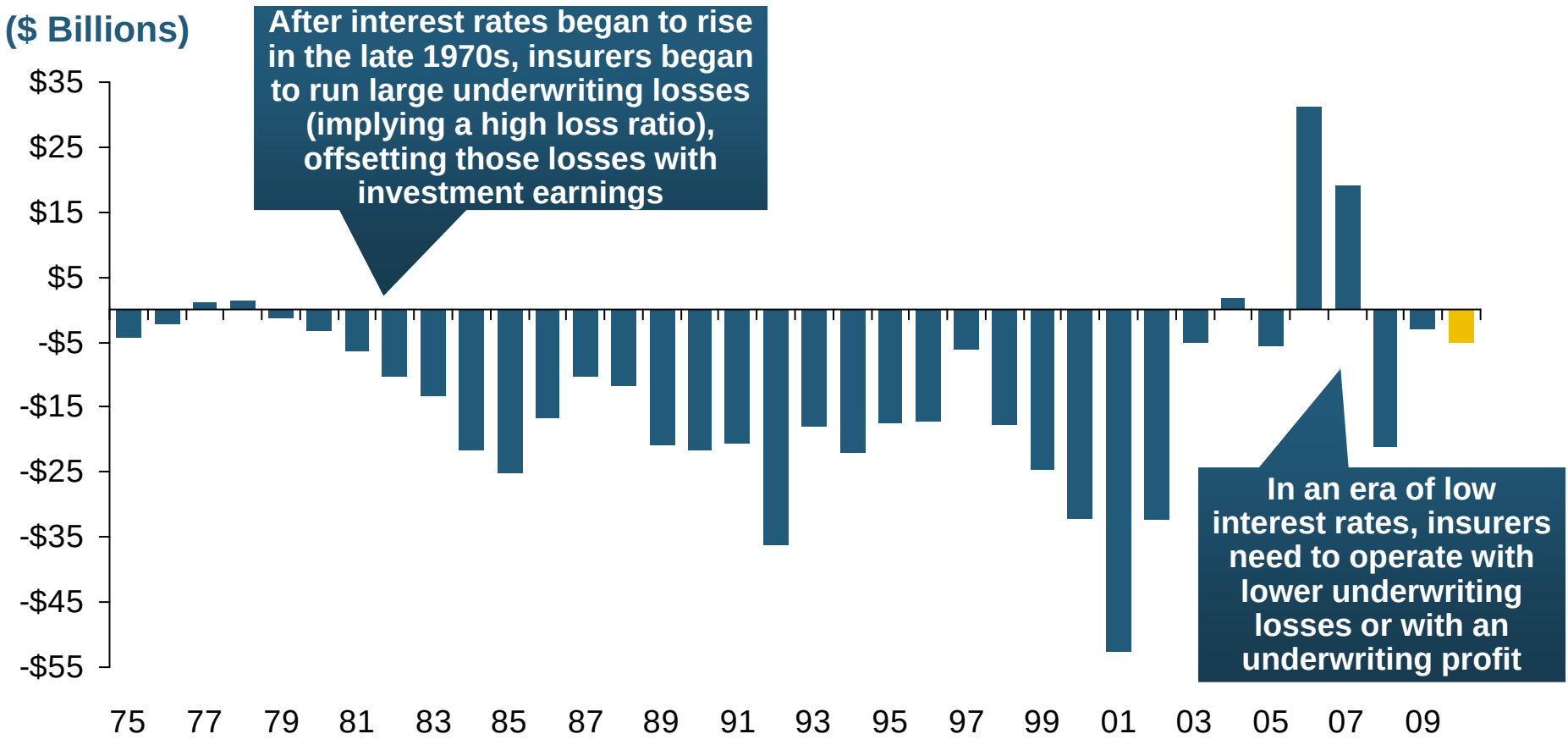
Underwriting Gain (Loss) 1975–2010:Q3*



Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.

Sources: A.M. Best, ISO; Insurance Information Institute.

Number of Years with Underwriting Profits by Decade, 1920s–2000s

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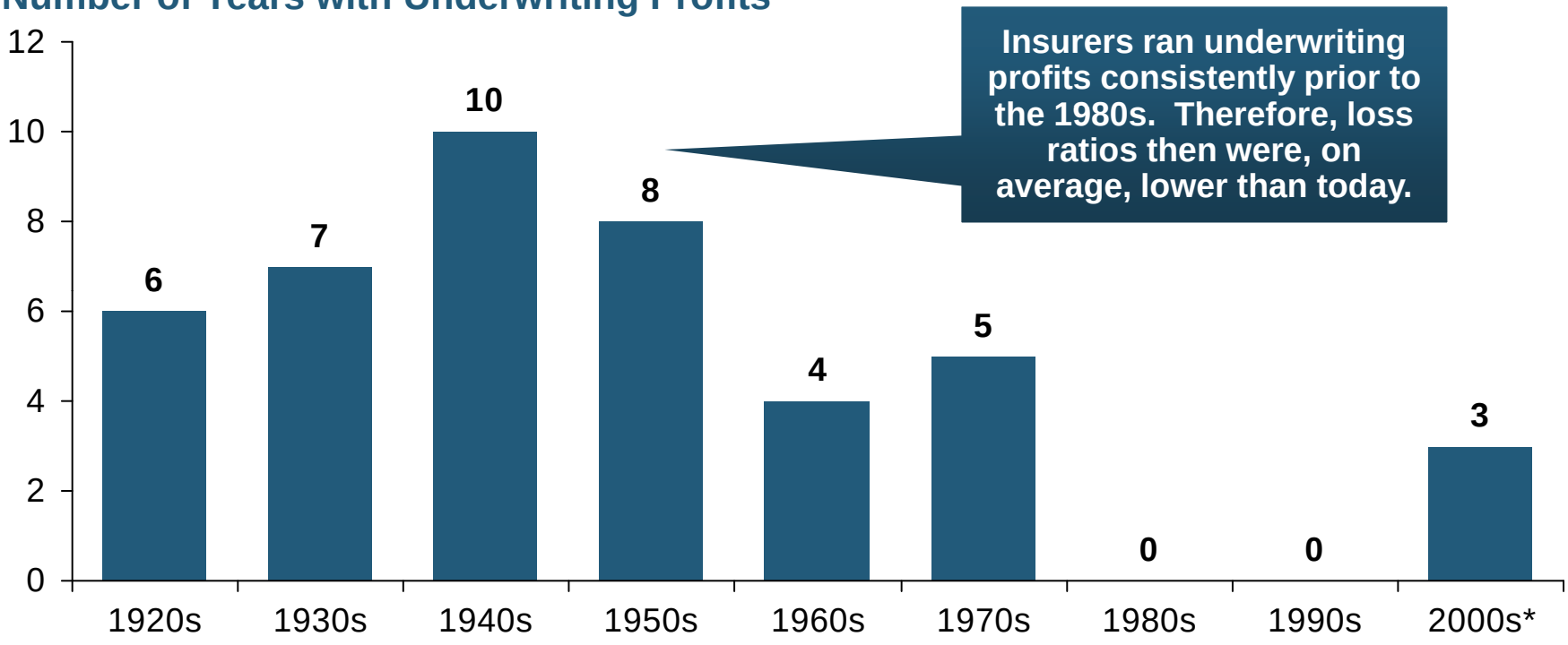
Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.

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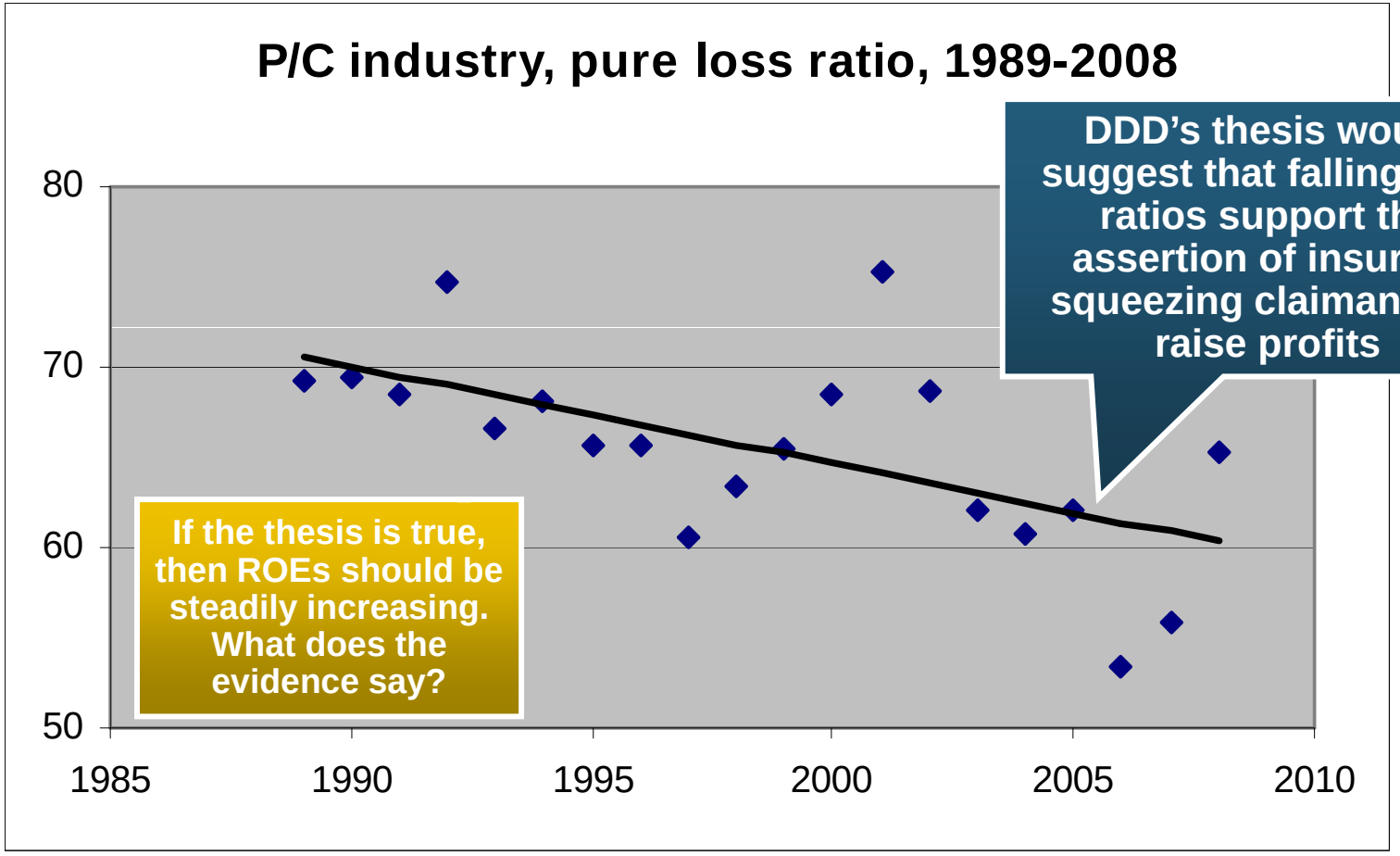
Empirical Evidence that the Central Thesis of "*Delay, Deny, Defend*" Is Wrong

No Evidence that Claims Practices Are Anything Other Than Fair; Certainly Not Used as a Profit Center

P/C Pure Loss Ratios, 1989-2008



Data source: Best's Aggregates & Averages – Property/Casualty

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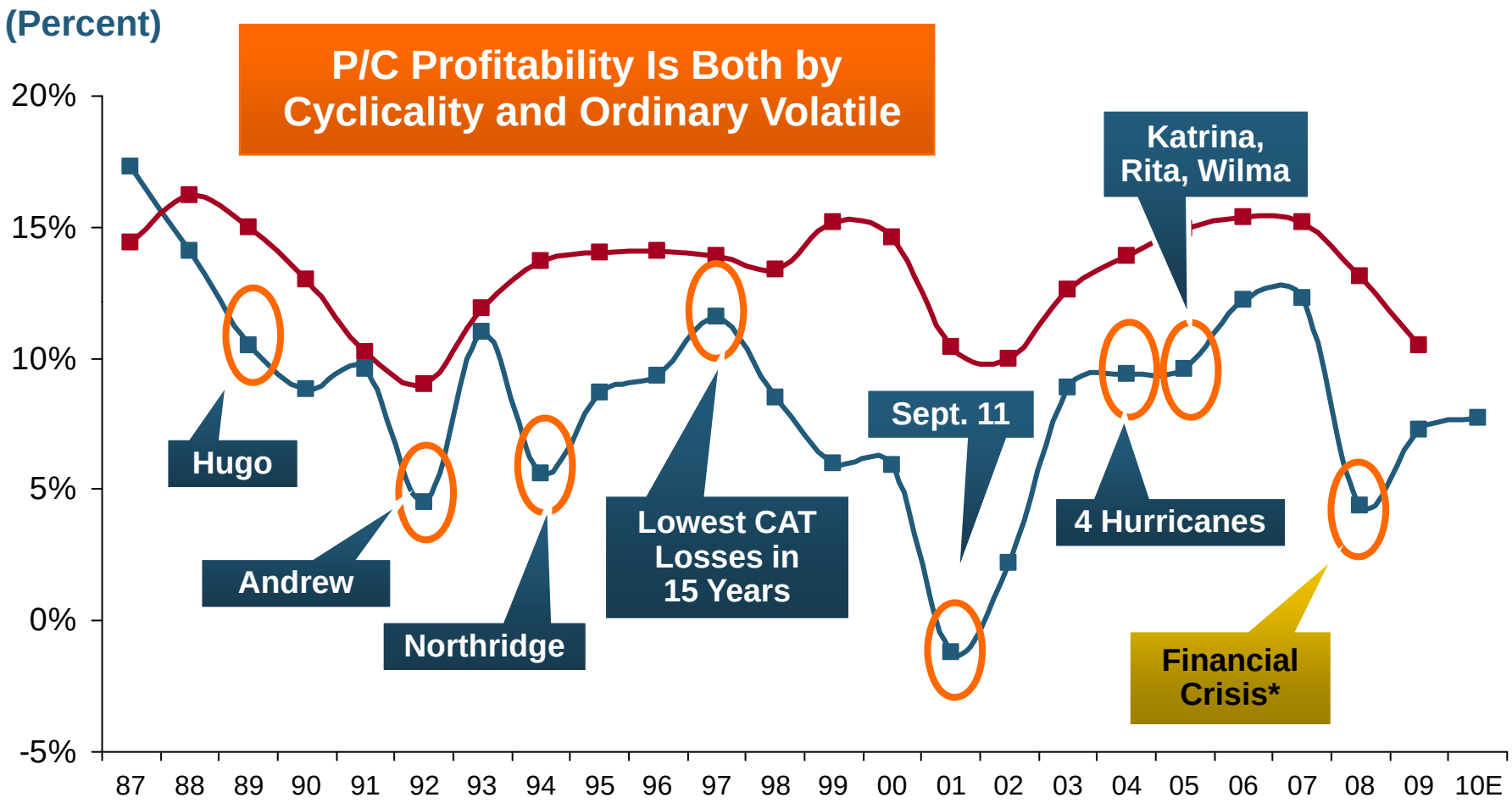
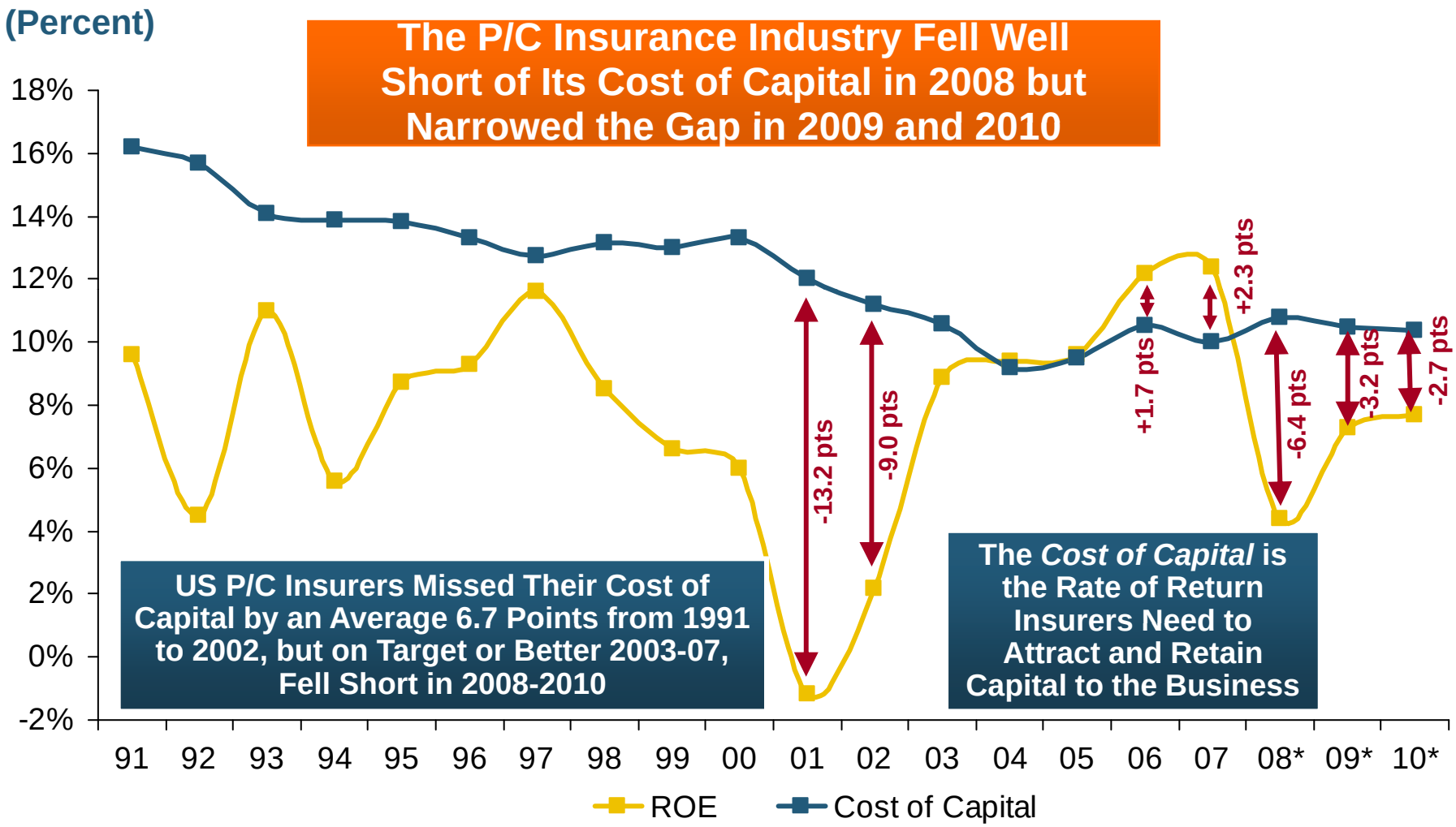
Source: Council on Litigation Management presentation by Jay Feinman, March 24, 2011, from A.M. Best data.

ROE: Property/Casualty Insurance, 1987–2010E*



* Excludes Mortgage & Financial Guarantee in 2008 - 2010.
Sources: ISO, *Fortune*; Insurance Information Institute figure for 2010 is actual through 2010:Q3.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:9-Months*



* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

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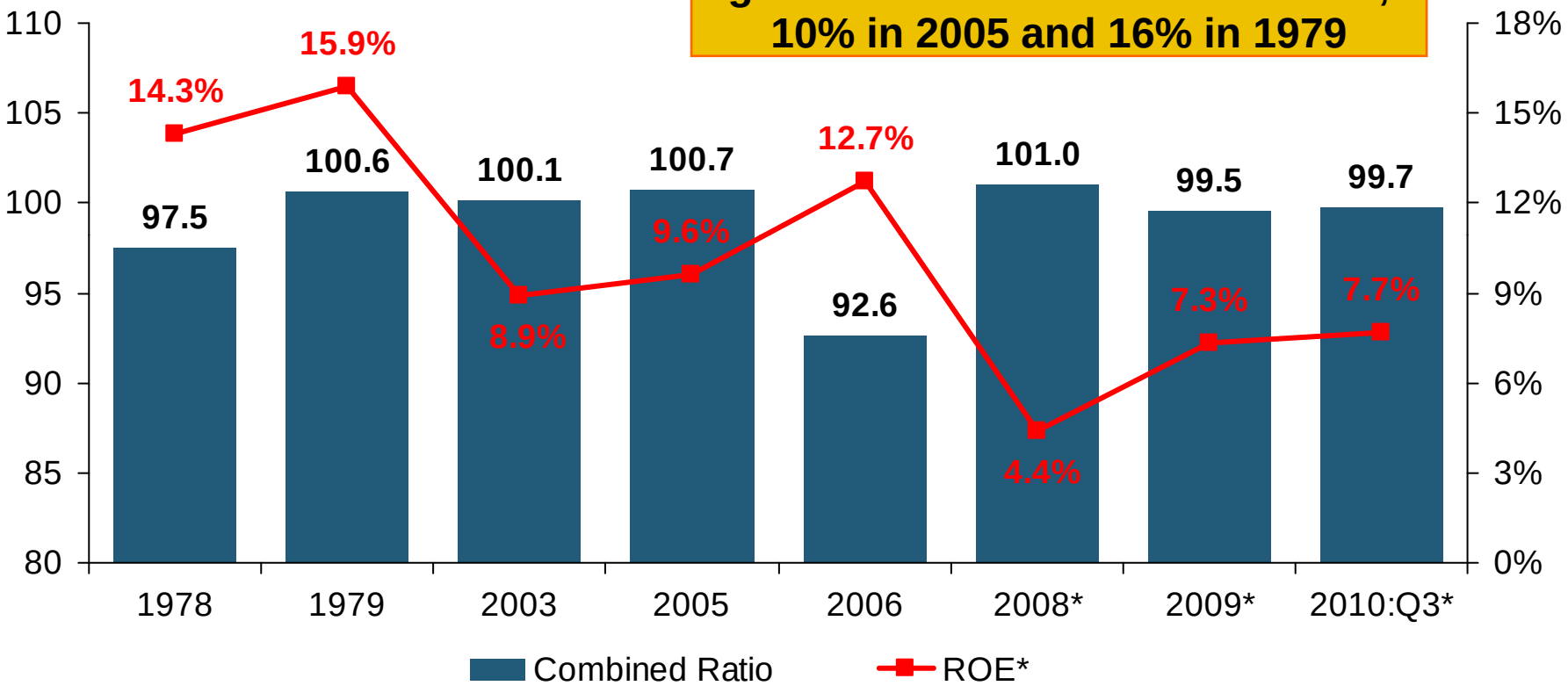
Combined Ratio / ROE

A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979



Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010:Q3 figures are return on average statutory surplus. 2008, 2009 and 2010:H1figures exclude mortgage and financial guaranty insurers

Source: Insurance Information Institute from A.M. Best and ISO data.

P/C Profitability Components Are Highly Variable But ROE Is Not Trending Upward

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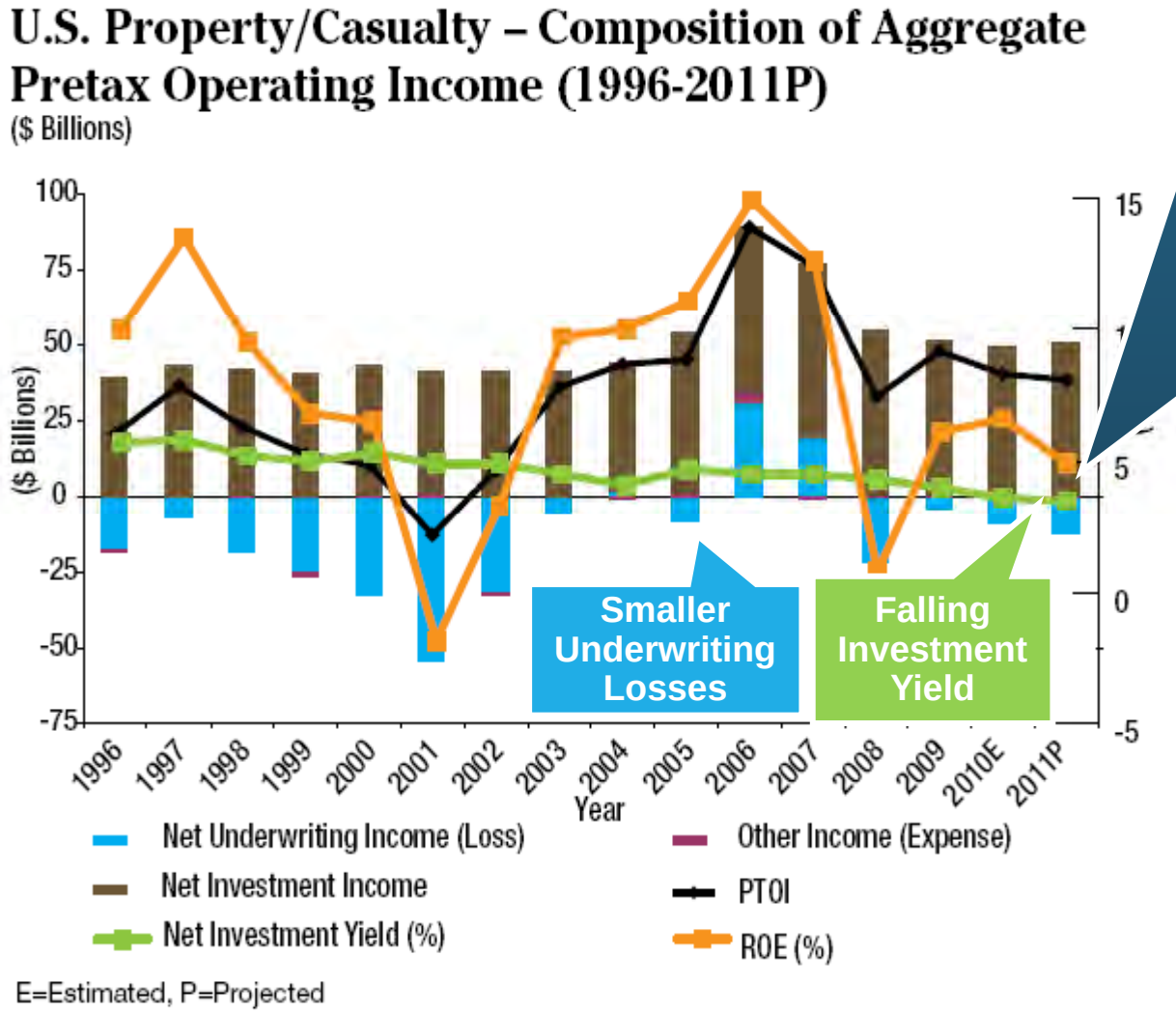

All of the components of P/C insurer profits are highly volatile, but net investment yield shows a steady downward trend. The *ONLY* way to counter this is to reduce underwriting losses, the magnitude of which has been shrinking in recent years. *Delay, Deny, Deny* inappropriately and inaccurately ascribes this as evidence of an effort deprive policyholders out of what is due them.

US Policyholder Surplus: 1975–2010*

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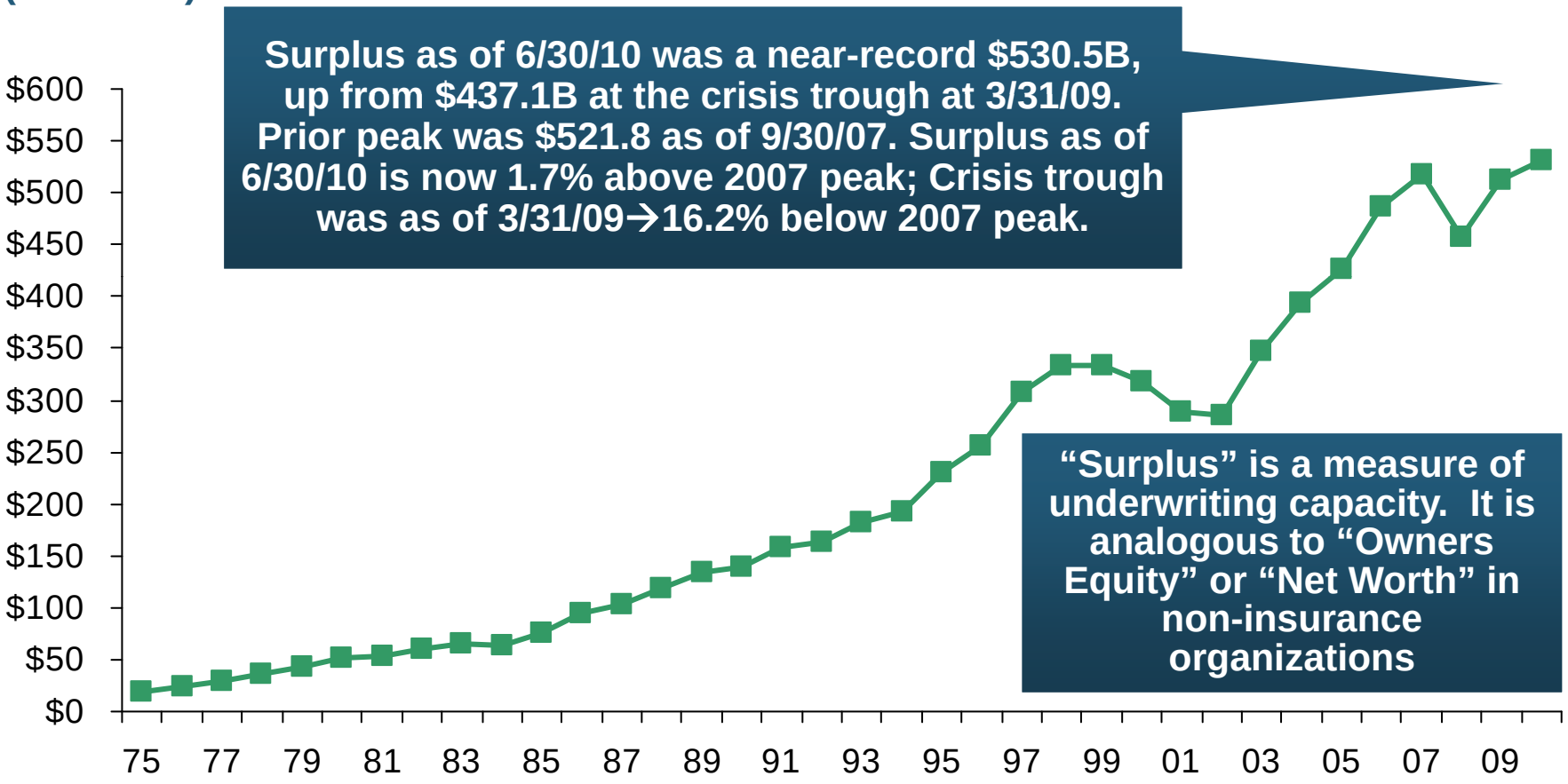
($ Billions)



* As of 6/30/10; **Calculated using annualized net premiums written based on H1 2010 data.

Source: A.M. Best, ISO, Insurance Information Institute.

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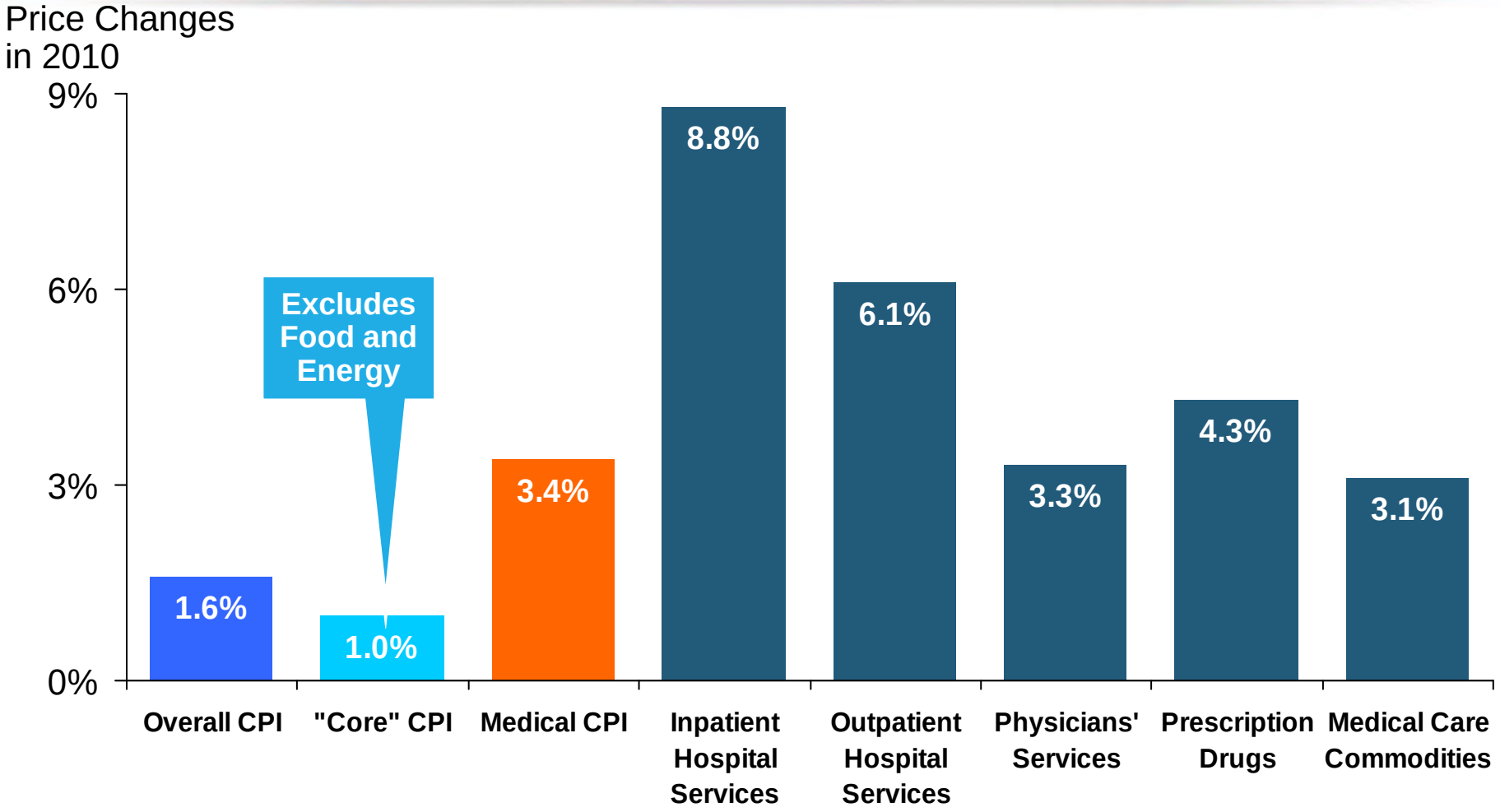
Claims Management Software

Assertion that Use of Software Results in a Systematic Bias Against Claimants is False

Claims Management Software

- **Claims Management Software (such as Colossus) is Used to Increase Consistency and Reduce Subjectivity in the Claims Evaluation Process (CSC)**
  - Sophisticated processes are necessary to ensure consistent and fair payments to millions of claims involving tens of billions in cost each year
  - The use of computer software is necessary to achieve this goal
- **NY Insurance Department (Oct. 2010):**
  - *"It is important to note that we found no systemic underpayment of bodily injury claims."*
    - Comments of NY Superintendent Wrynn following a recent carrier examination
- **There is Nothing Nostalgic About the Era of 100% Manual Claims Adjusting in an Era of Rapid Medical Cost Inflation and Rampant Fraud and Abuse**
  - Without claims management software, overall system costs would be higher
  - Incidence rate of fraud and abuse would be higher
- **The Role of Technology in Claims Adjusting Will Evolve and Grow**
  - This transformational role of information is not unique to insurance

P/C Insurance Claim Cost Drivers Grow Faster than even the Medical CPI Suggests



Keeping tabs on medical costs is an absolute imperative. Failure to do so would radically increase systems costs and premiums and reduce availability

Source: Bureau of Labor Statistics; Insurance Information Institute.

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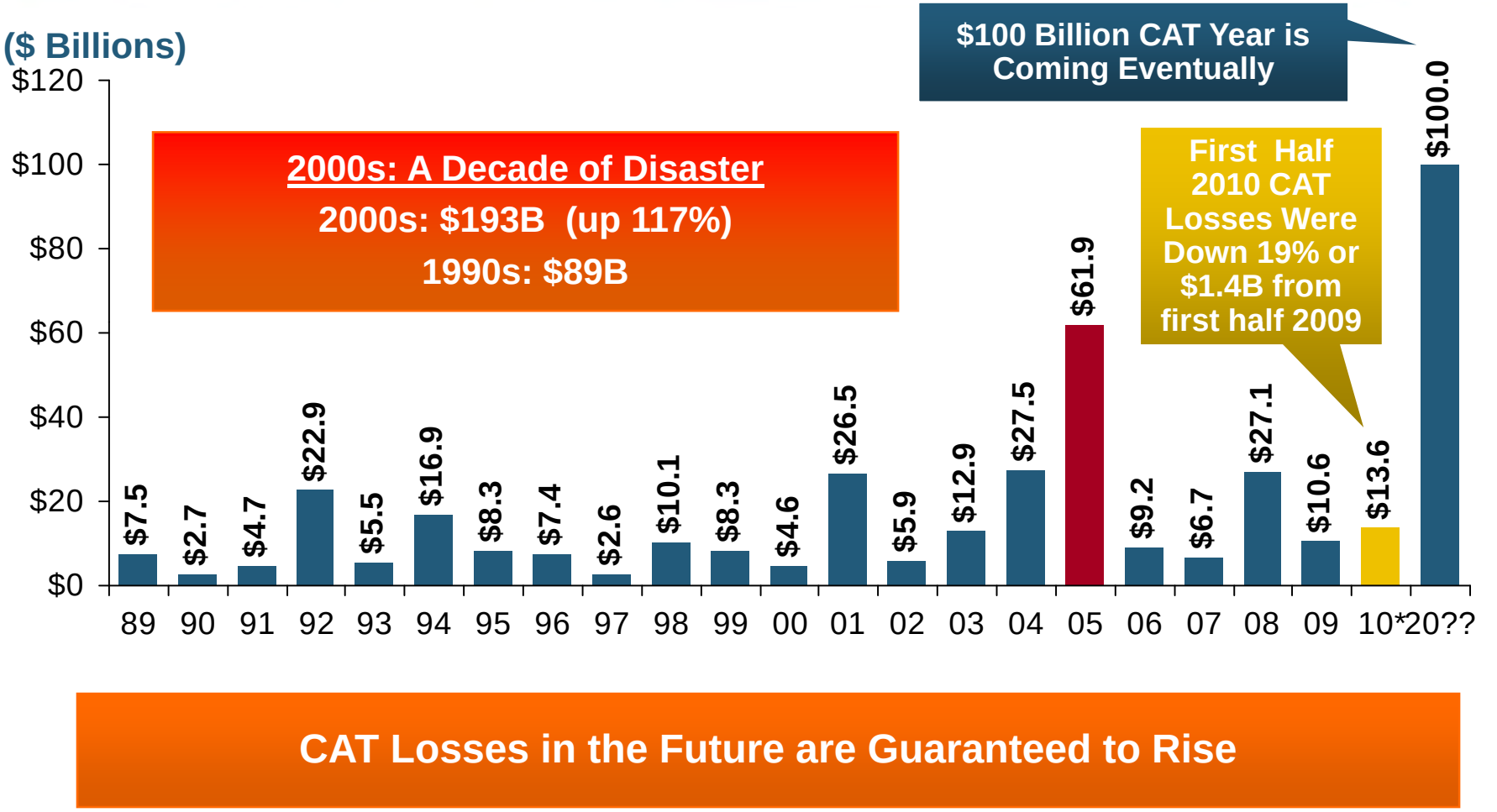
Case Study: Catastrophe Losses Are Increasing in Number and Cost

THE FACTS: The P/C Insurance Industry Pays Millions of Claims Totaling $1 Trillion in Claims Every 2-3 Years

US Insured Catastrophe Losses



CAT Losses in the Future are Guaranteed to Rise

*Estimate from Munich Re.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.

Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2010E

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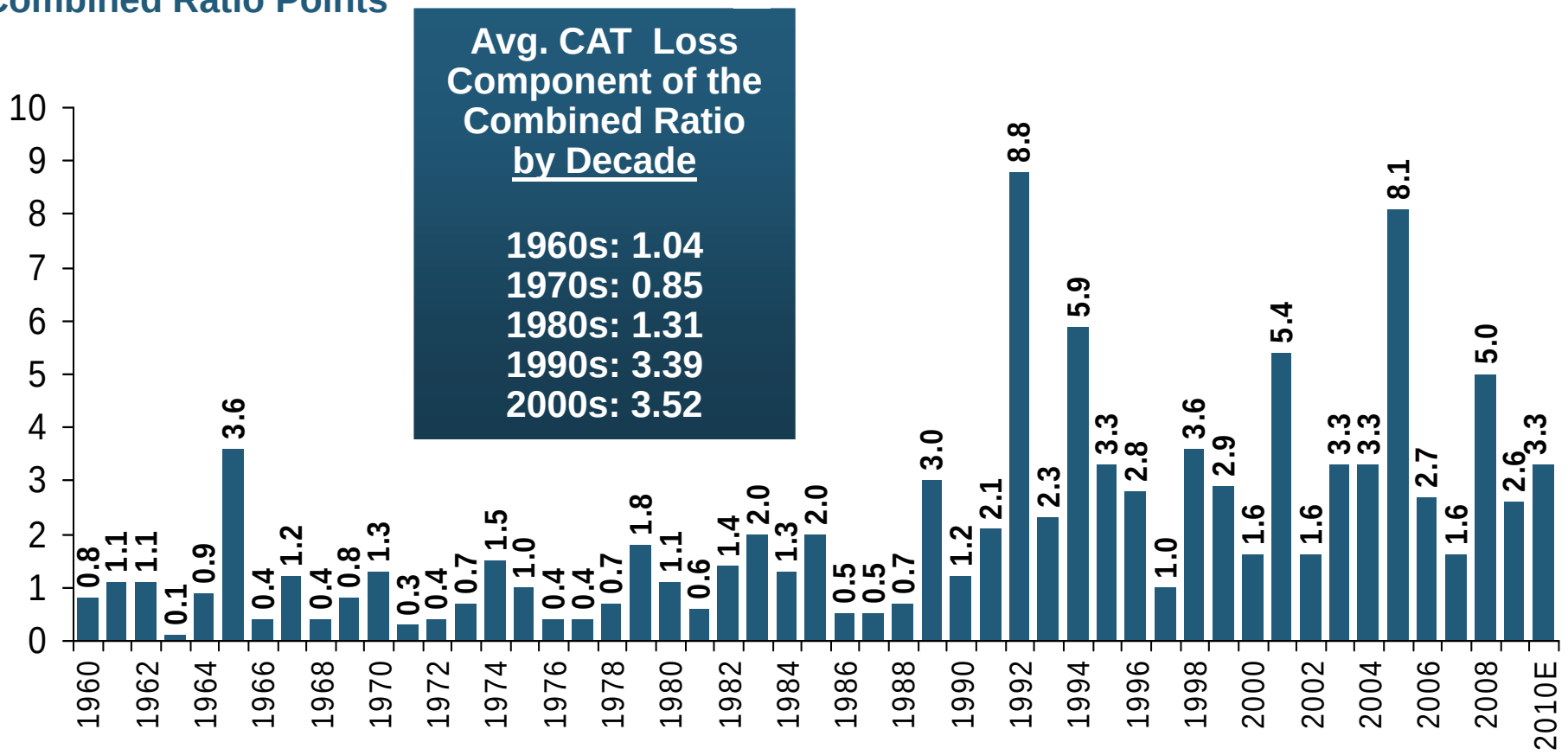
Combined Ratio Points



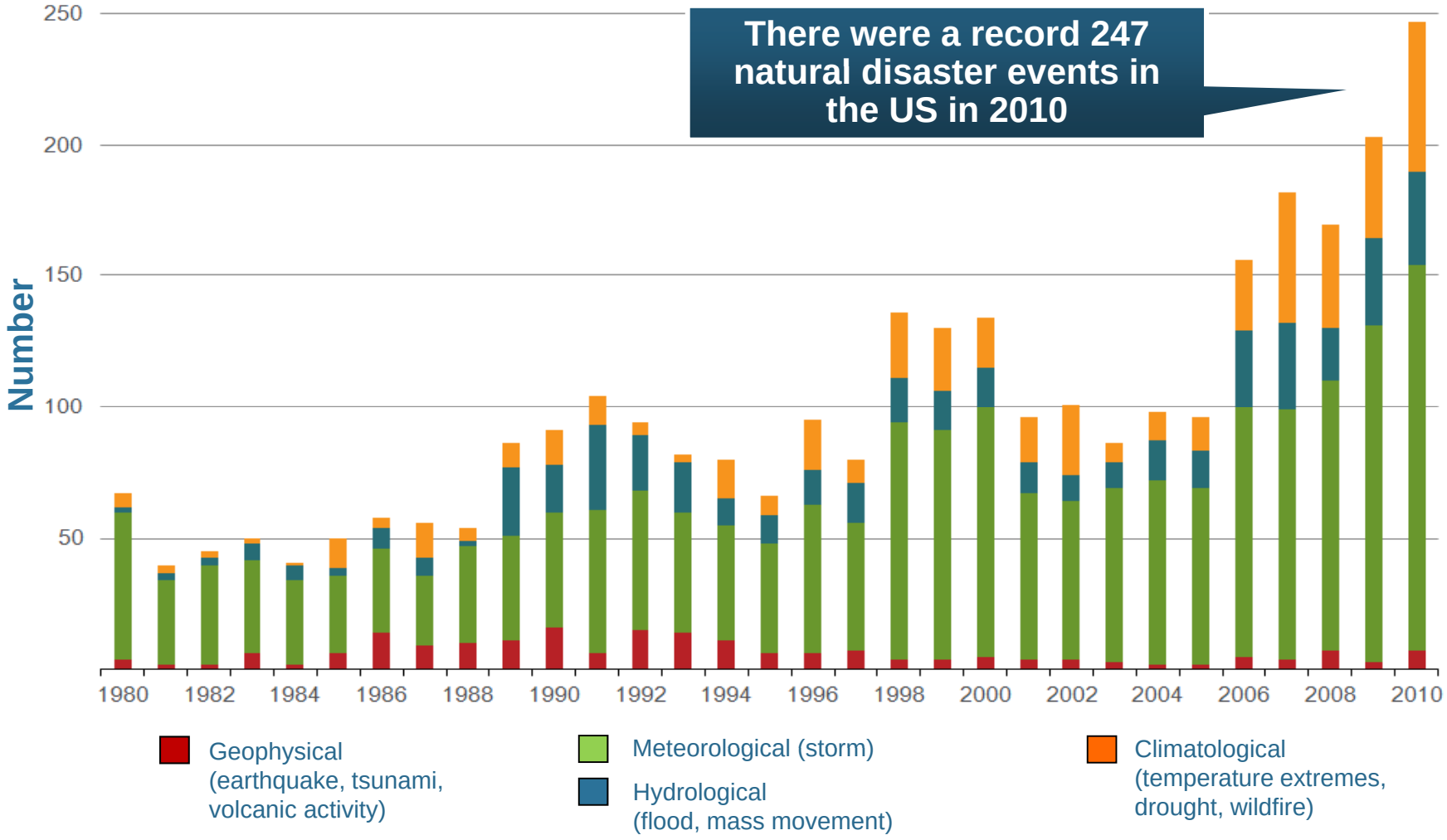
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute estimate for 2010.

Natural Disasters in the United States, 1980 – 2010

Number of Events (Annual Totals 1980 – 2010)



Source: MR NatCat*SERVICE*

Recent Major Global Catastrophe Losses

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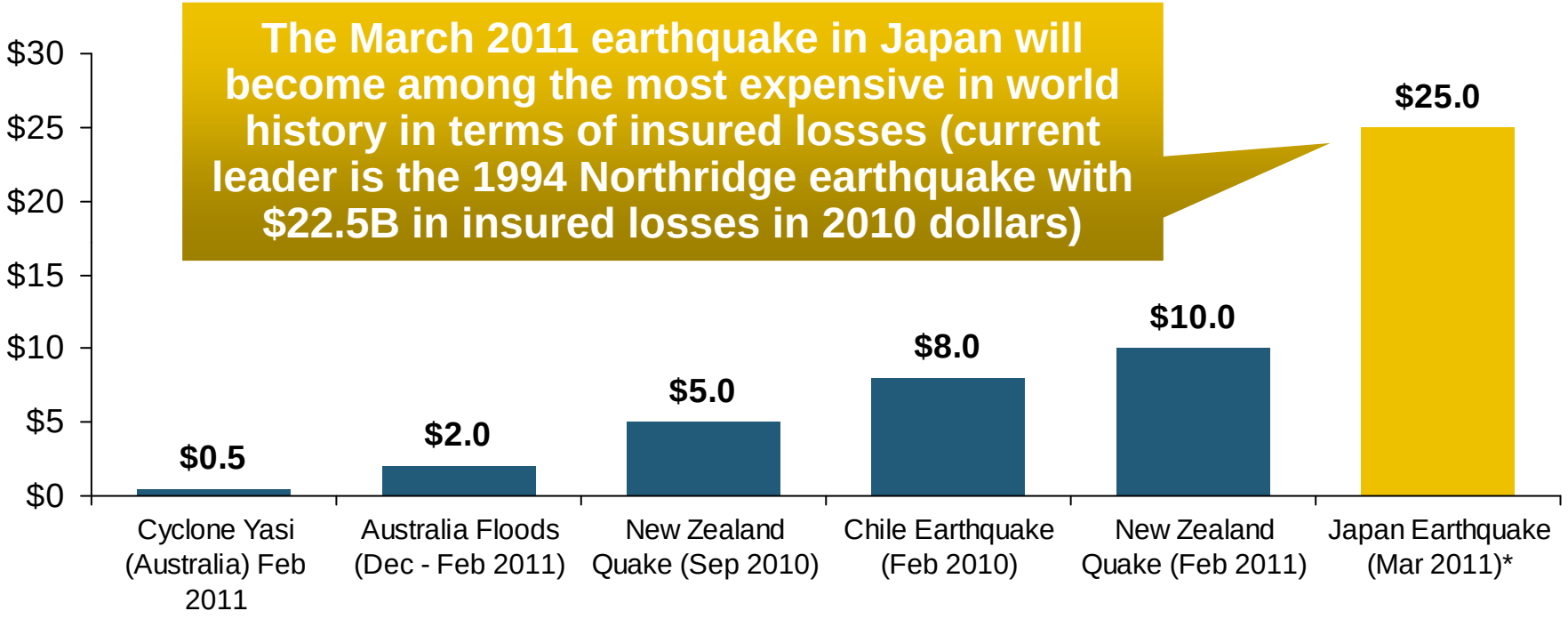
(Insured Losses, $US Billions)



Insured Losses from Recent Major Catastrophe Events Exceed $50 Billion, an Estimated $48 Billion of that from Earthquakes

*Midpoint of AIR Worldwide estimated insured loss range of $15 billion to $35 billion as of March 13, 2011. Does not include tsunami losses.

Sources: Insurance Council of Australia, Munich Re, AIR Worldwide; Insurance Information Institute.

Top 12 Most Costly Disasters in US History

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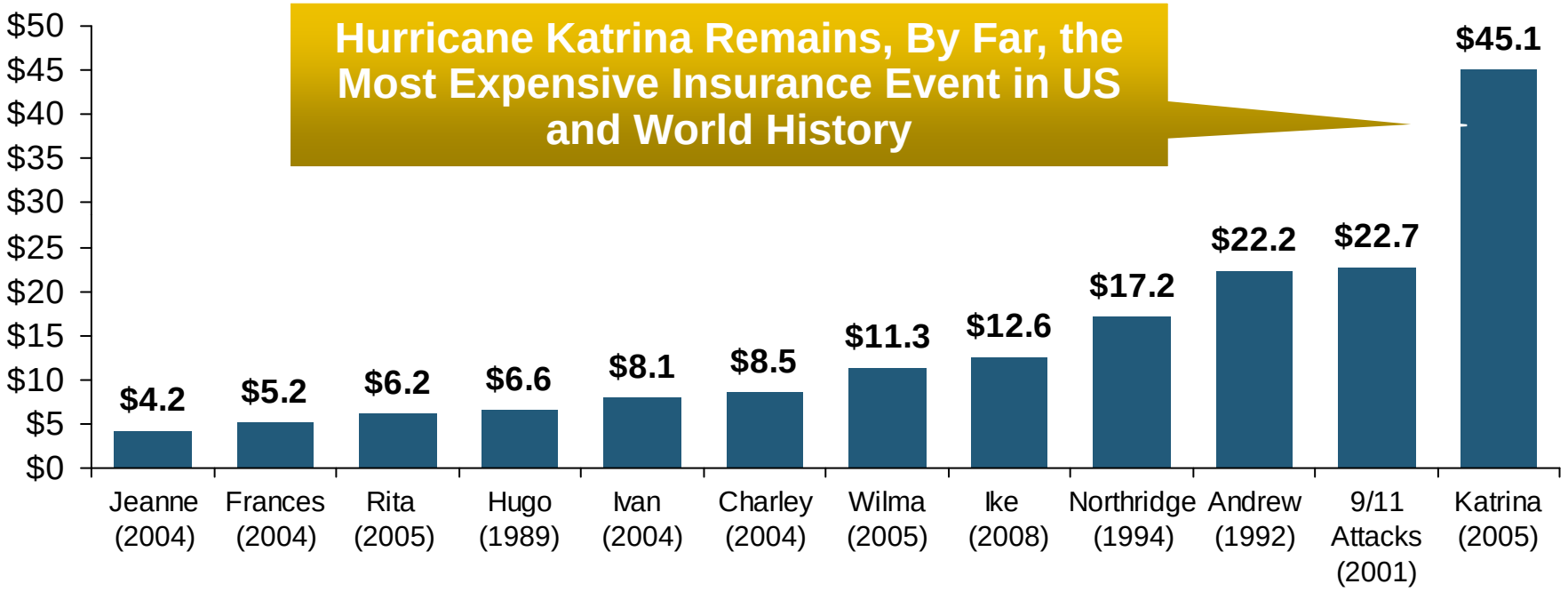
(Insured Losses, 2009, $ Billions)



8 of the 12 Most Expensive Disasters in US History Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL

Sources: PCS; Insurance Information Institute inflation adjustments.

Total Value of Insured Coastal Exposure

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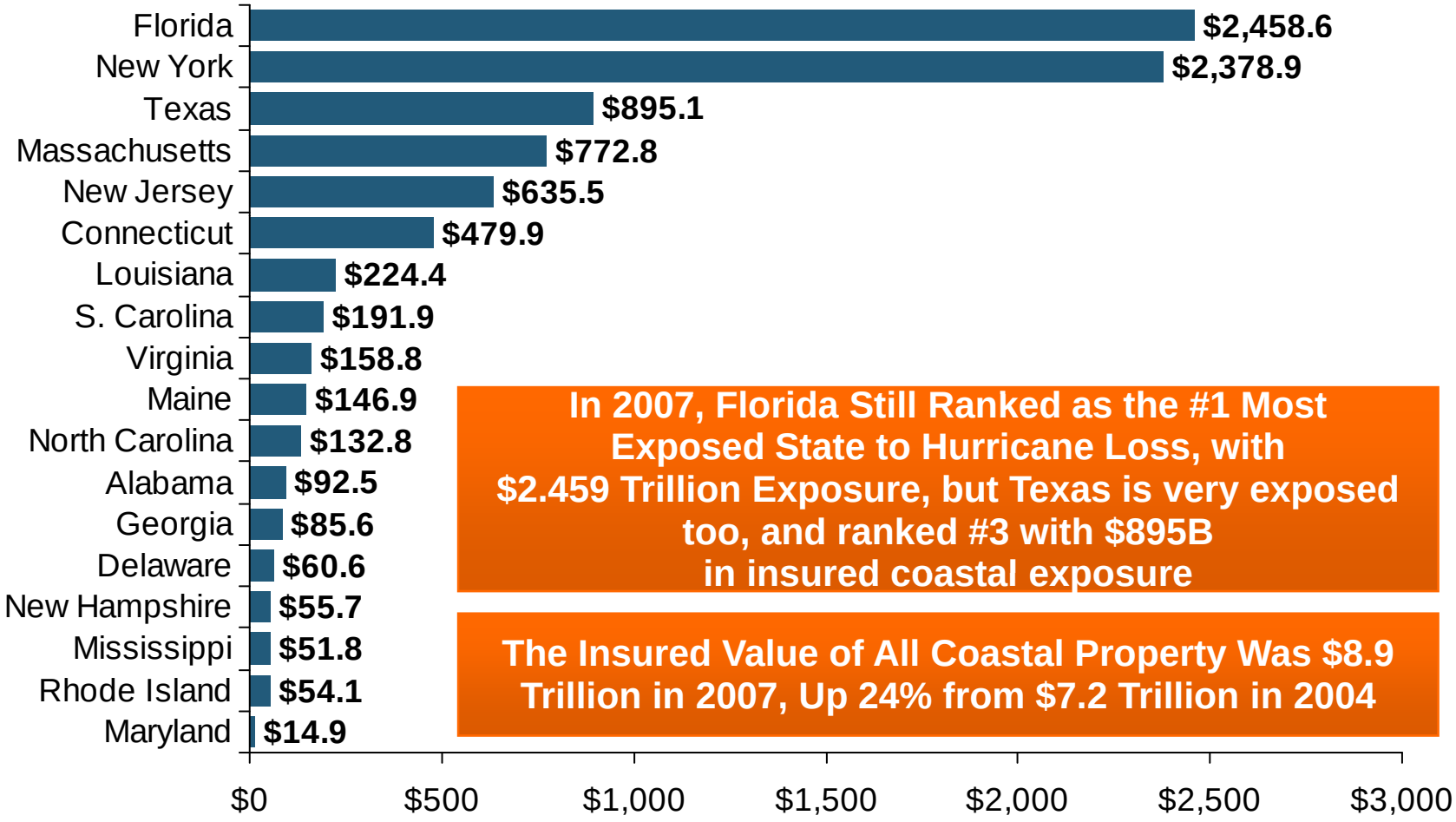
(2007, $ Billions)



In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, but Texas is very exposed too, and ranked #3 with $895B in insured coastal exposure

The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004

Source: AIR Worldwide

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Global Catastrophe Loss Trends

Claims Paying Capacity Will Need to Increase in the Future if Current Disaster Trends Continue

Natural Catastrophes Worldwide, 1980 – 2010 (Number of events with trend)

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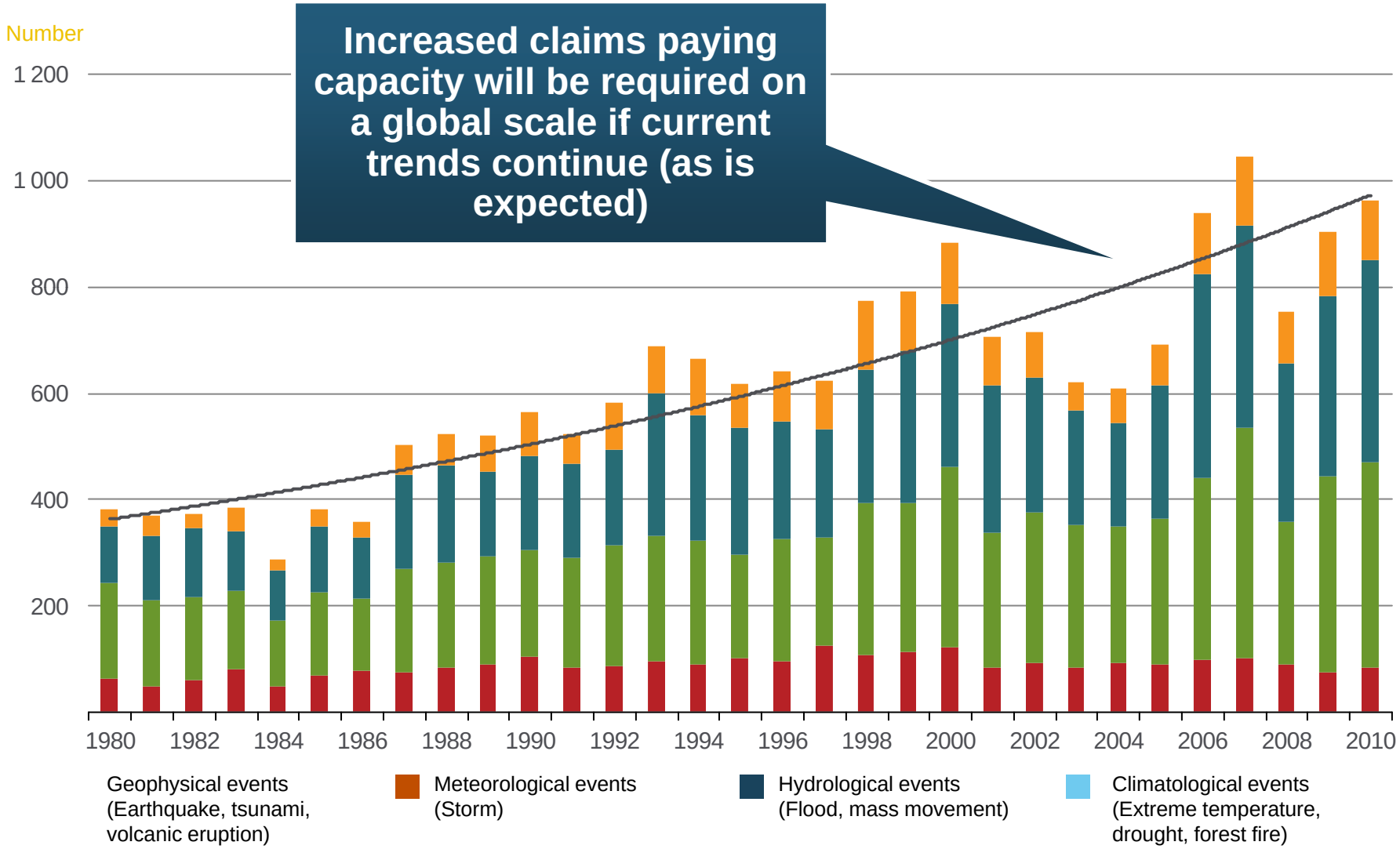

Source: Geo Risks Research, NatCatSERVICE

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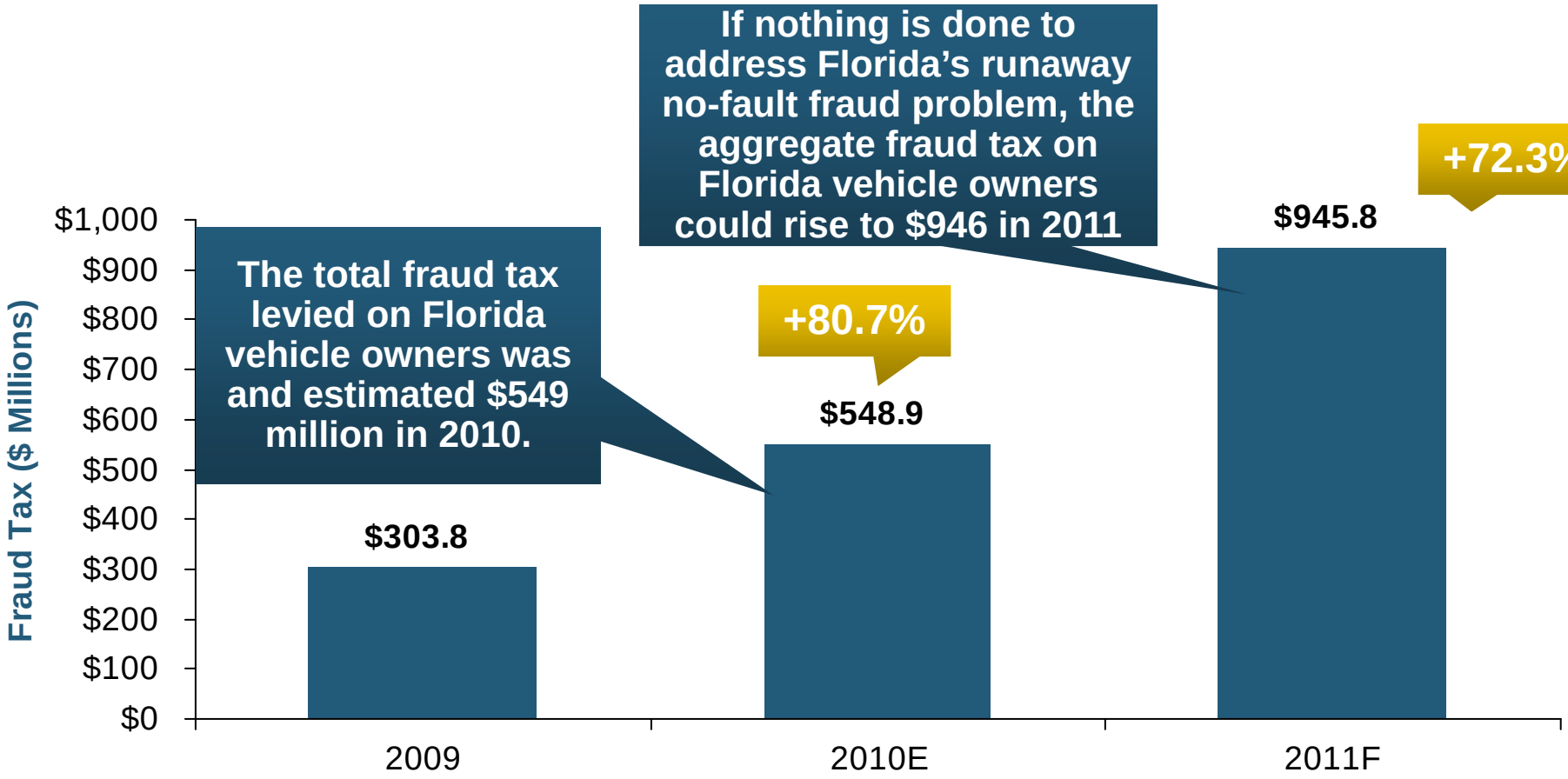
Fraud Is a Serious Problem

Delay, Deny, Defend: Fraud = "Social Marketing" and Is "Exaggerated"

Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011F ($ Millions)



Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2010 estimate is based on data through Q3:2010. 2011 forecast is based on an assumed increase in pure premium of 25% (pure premium increased 27% in the 4 quarters ending with 2010:Q3). Estimates assume 11.288 million insured vehicles in FL in 2009-2011 (11.288 million is 2008 actual figure from AIPSO).

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

New York State No-Fault Claim Severity, 1997–2010:Q3

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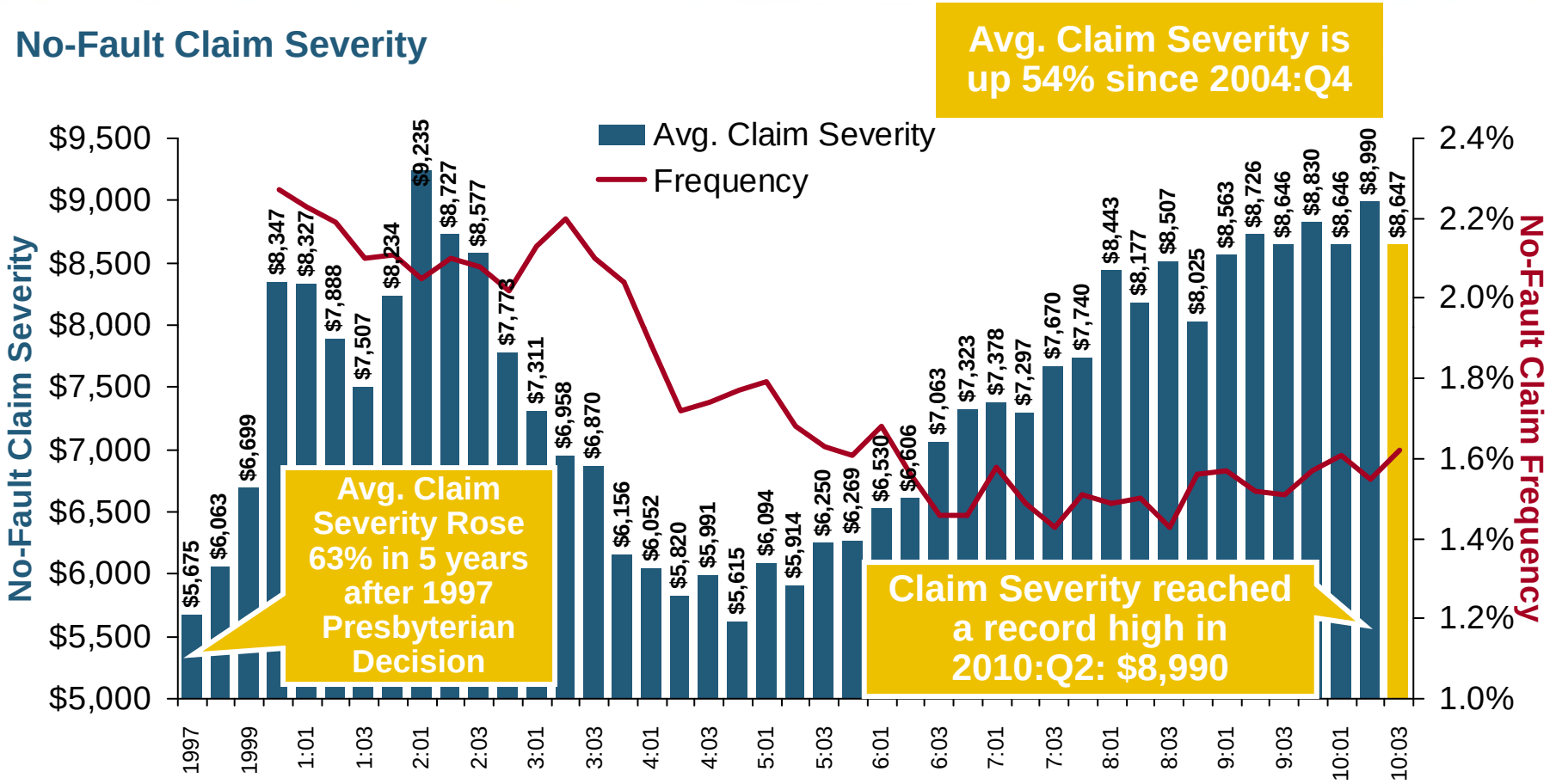
No-Fault Claim Severity



About 20% of No-Fault Claim Costs Are Attributable to Fraud and Abuse

Sources: ISO/PCI *Fast Track* data; Insurance Information Institute.

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