

Insurance Law

Property Casualty Profitability

by Paul M. Veillon

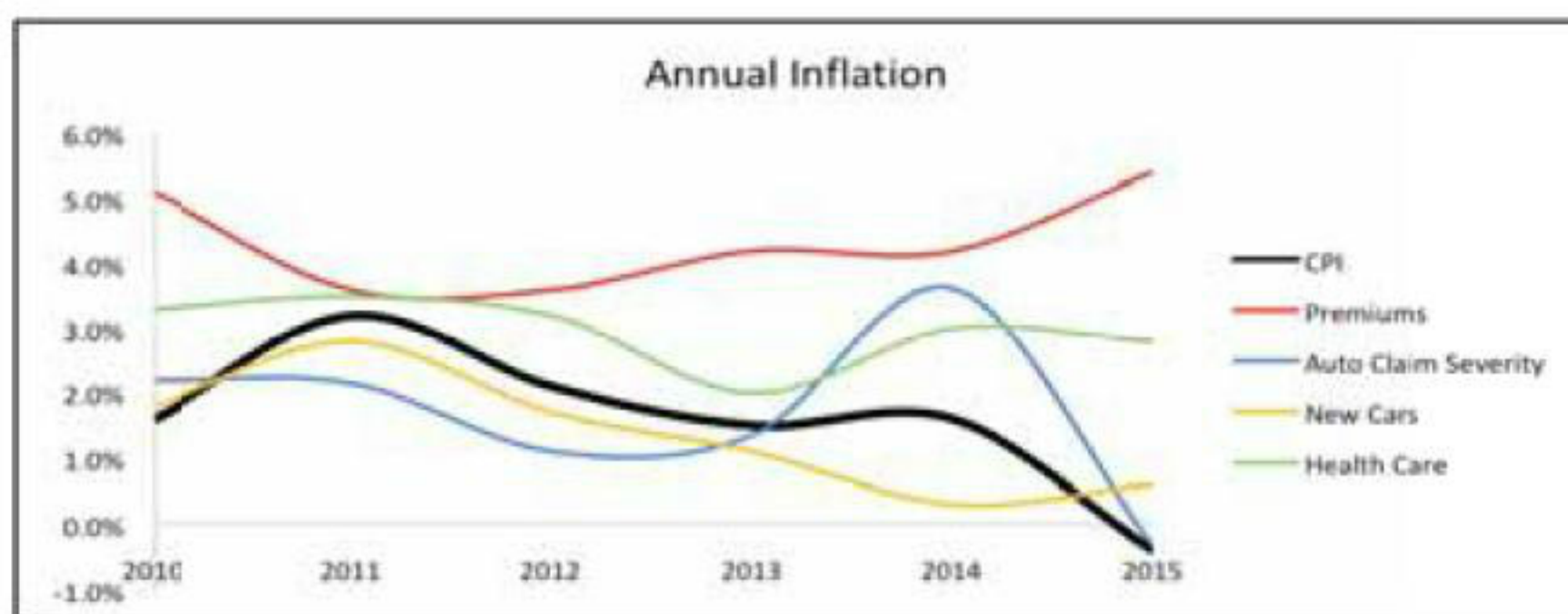
"Not Everything that Can Be Counted Counts" – Albert Einstein

Property casualty insurance companies present Planet Earth as a constant threat. In January 2016, Mitchell, a company that writes insurance auto estimating and medical bill review software, issued a well-publicized and alarming "property" report that "cars cost more to fix, adjusted for inflation, than they did five years ago."¹ Insurance fraud, it reported in its "casualty" section,² "is an \$80 billion industry, second only to narcotics trafficking." *Insurance Journal* told Americans that, "while claim frequency is going down, severity is going up,"³ and even the U.S. Treasury Department noted that "Superstorm Sandy in 2011 was the second costliest natural disaster in US history."⁴

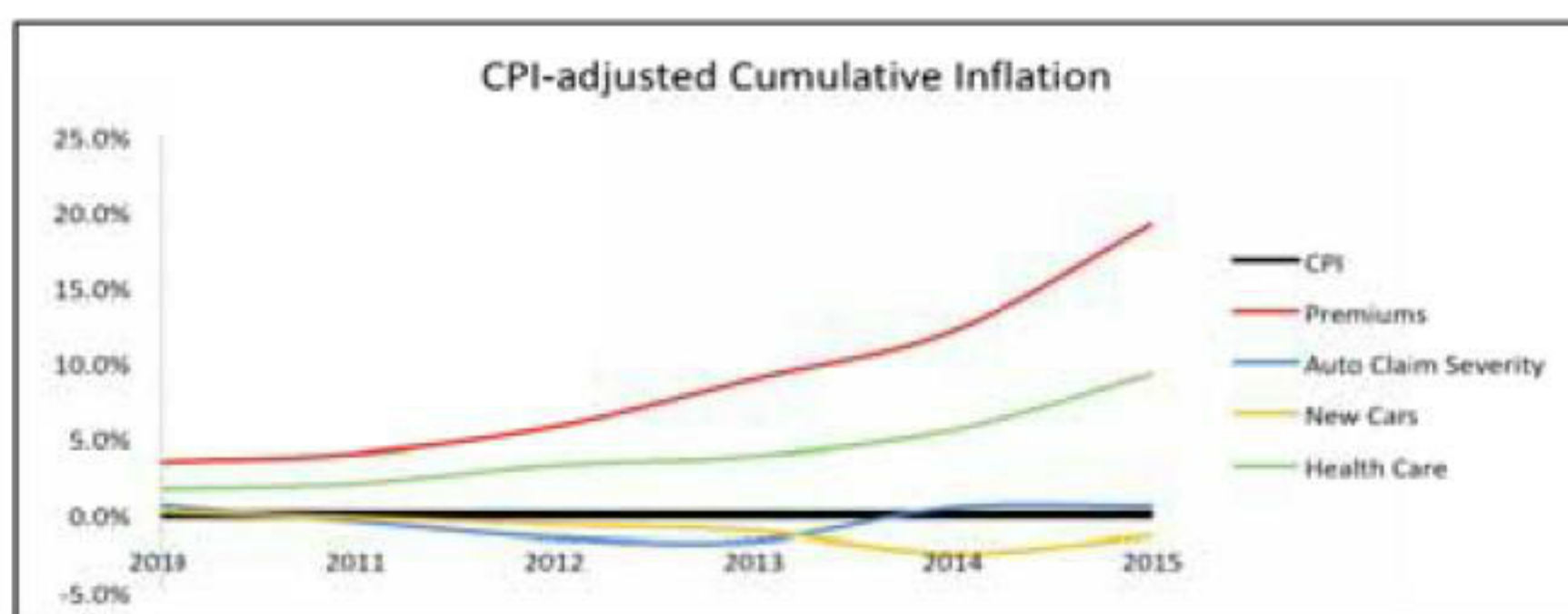
We decided to look into those claims. We gathered underwriting performance and net income data from the U.S. Treasury Department,⁵ premium data from the Insurance Information Institute,⁶ overall inflation data from the Federal Reserve,⁷ health care inflation rates from Forbes,⁸ and new car inflation rates from the Federal Reserve⁹ as benchmarks. We also reviewed the Towers Watson claim cost index¹⁰ looked deeper into the Mitchell reports cited above for their raw data.

Conclusion: the insurance industry is unreasonably profitable. The function of insurance is to evenly spread risk among society so that economic externalities (property casualty losses) do not disproportionately affect the individuals harmed. For that service, an insurer can earn a *reasonable* profit. But property casualty insurers are using premiums to out-perform other economic sectors while we are trying to emerge from a recession, and they are sounding alarms about their financial despair and risk that do not match the data about their financial performance.

Here are the details of our data analysis. The graph below shows annual inflation from 2010 to 2015, auto claims severity (bodily injury and property damage), benchmarks, and auto premiums:

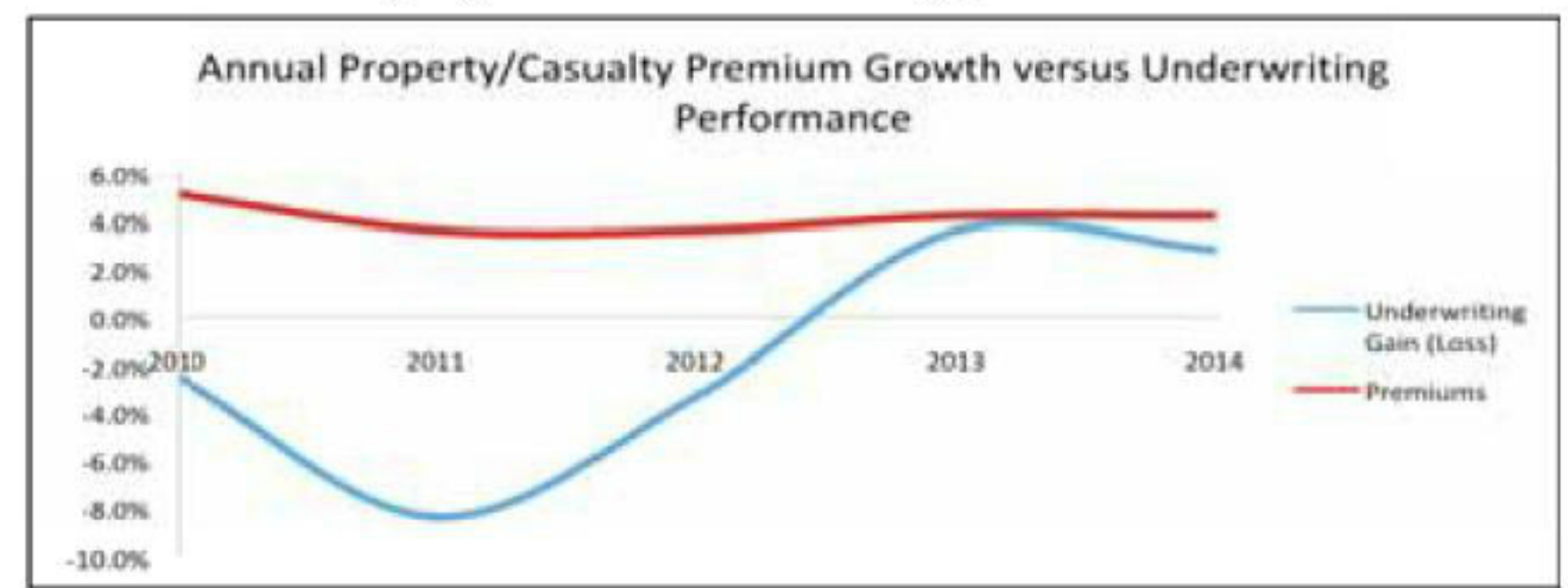


Here you can see the cumulative inflation rate for our benchmarks, auto claim severity, and property casualty insurance premiums adjusted for inflation:



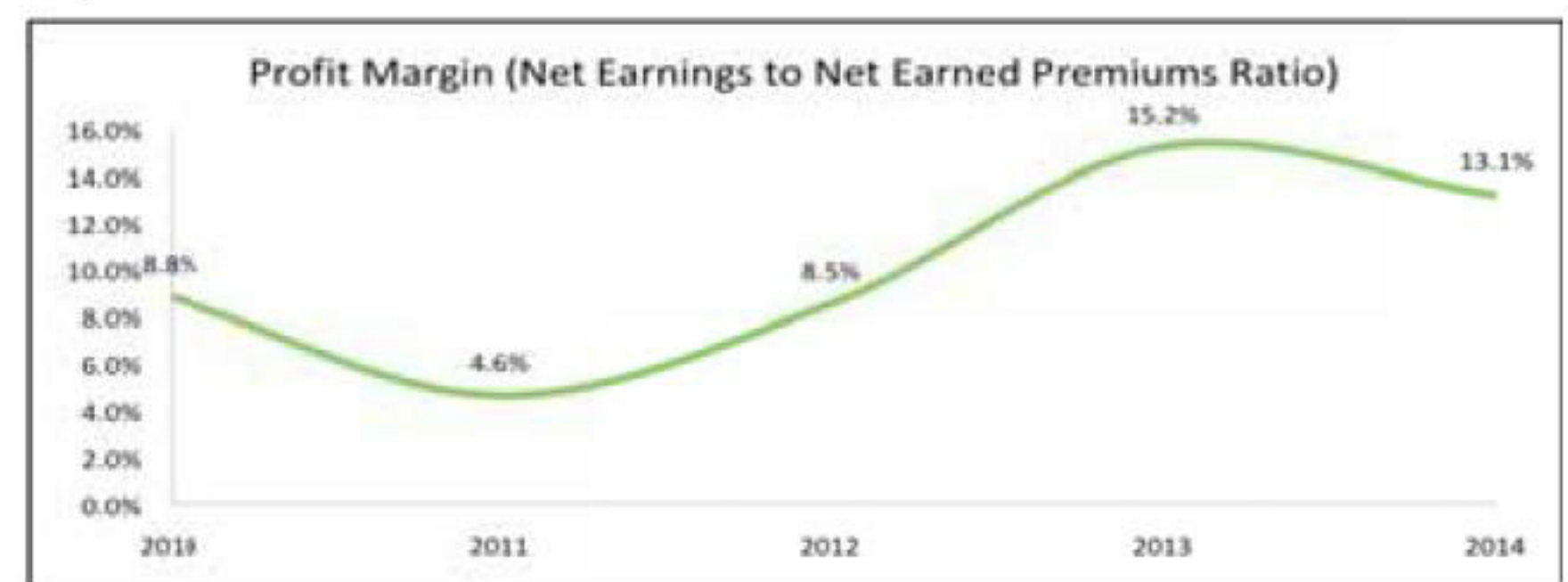
Auto claim severity *has* undergone more cumulative inflation since 2010 than the Consumer Price Index, but only 6%, while health care expenses are 93% higher (they have undergone almost twice as much cumulative inflation), and auto insurance premiums are 192% higher.

Property casualty insurers made underwriting gains in 2013 and 2014, and premium inflation has been steady regardless of underwriting performance:



During that period, the property casualty sector has earned at least \$20 billion per year, an average of \$46 billion, and \$232 billion overall. Even in 2011 (Superstorm Sandy), property casualty insurance pulled \$20 billion out of the U.S. economy.¹¹

Auto, homeowners, and commercial insurance premiums have risen almost three times as fast as inflation even though insurers have earned an average 10% profit margin during that period:¹²



This data provides necessary context for news and political lobbying bemoaning property casualty profitability challenges and belies the unreliability of insurance industry scare tactics about premium containment, risk control, and runaway claim severity.

Paul Veillon is a WSAJ EAGLE Member and solo practitioner at Galileo Law PLLC in Seattle.

¹ Mitchell, Inc., "Industry Trends Report: Property" (available as of February 20, 2016 at <http://www.mitchell.com/industry-trends-report/itr-2016-q1-apd/index.html>).

² Mitchell, Inc., "Industry Trends Report: Casualty" (available as of February 20, 2016 at <http://www.mitchell.com/industry-trends-report/itr-2016-q1-casualty/index.html>).

³ "If Auto Injury Claims Frequency Is Falling, Why Are Claims Costs Rising?" *Insurance Journal*, October 7, 2015 (available as of February 20, 2016 at <http://www.insurancejournal.com/news/national/2015/10/07/384001.htm>).

⁴ Federal Insurance Office, U.S. Dept. of the Treasury, "Annual Report on the Insurance Industry," September 2015 (available as of February 20, 2016 at https://www.treasury.gov/initiatives/fio/reports-and-notice/documents/2015%20fio%20annual%20report_final.pdf).

⁵ *Id.*

⁶ Insurance Information Institute, "Auto Insurance: Costs and Expenditures" (available as of February 20, 2016 at <http://www.iii.org/fact-statistic/auto-insurance>).

⁷ Federal Reserve Economic Data, "Consumer Price Index for All Urban Consumers: All Items" (available as of February 20, 2016 at <https://research.stlouisfed.org/fred2/series/CPIAUCSL>).

⁸ Mike Patton, "U.S. Health Care Costs Rise Faster Than Inflation," *Forbes*, June 29, 2015 (available as of February 20, 2016 at <http://www.forbes.com/sites/mikepatton/2015/06/29/u-s-health-care-costs-rise-faster-than-inflation/#7d54bef96ad2>).

⁹ Federal Reserve Economic Data, "Consumer Price Index for All Urban Consumers: New Vehicles" (available as of February 20, 2016 at <https://research.stlouisfed.org/fred2/series/CUUR0000SETA01>).

¹⁰ Jeremy Pecora and Emily Thompson, "Towers Watson Claim Cost Index," June 2015 (available as of February 20, 2016 at <https://www.towerswatson.com/DownloadMedia.aspx?media={B779B4F3-CB42-4D24-8A43-1628C167DB71}>).

¹¹ Federal Insurance Office, U.S. Dept. of the Treasury, "Annual Report on the Insurance Industry," September 2015 (available as of February 20, 2016 at https://www.treasury.gov/initiatives/fio/reports-and-notice/documents/2015%20fio%20annual%20report_final.pdf).

¹² *Id.*

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