



NATIONAL INSURANCE
CONSUMER ORGANIZATION

11 AM, August 27, 1986
For Immediate Release

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Insurance Market Loosening in No-Tort-Reform States,
NICO Survey Finds

Insurance companies are re-entering markets they had withdrawn from and are beginning to cut their prices in states in which "tort reform" was not enacted, according to a new survey by the National Insurance Consumer Organization.

The survey covers 13 states in which no "tort reforms" -- limitations on compensation to severely injured people -- have been enacted. Although some insurance company executives have said they were re-entering markets in response to "tort reform," in ten of the 13 "no-tort-reform" states covered by the survey insurers have re-entered markets they had withdrawn from, and in two of those ten - Arkansas and Arizona - insurers are beginning to drop their prices.

"The insurance industry has conned us on the way in to the insurance crisis and now they're conning us on the way out of the crisis," said J. Robert Hunter, president of NICO and Federal Insurance Administrator under Presidents Ford and Carter. "The boom-bust insurance industry cycle gave us the crises of 1975-76 and 1985-86, and we will have another insurance crisis in 1995-96 unless the cycle is controlled."

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The survey was contained in a new NICO report entitled "Six Insurance Industry Fibs." In addition to the fib about the connection between tort reform and the loosening of the insurance market, the report documents insurance industry misrepresentation of Jury Verdict Research statistics, the "Philadelphia psychic" case, Rand Corporation studies, the degree of new entry into the insurance industry, and insurer profitability. The industry has heavily relied on all six in its campaign for "tort reform."

"The extent to which the insurance industry has lied to legislators and to the American public is unprecedented and tragic," said Hunter. "It is particularly tragic because both the insurance system and the legal system are badly in need of reform, although not the type of reform advocated by the insurance industry."

Hunter challenged the industry to reverse its present course of seeking legislation to limit compensation to severely injured people with meritorious cases, and instead to work with NICO to make both the insurance and legal systems more efficient. He outlined NICO's 16-point insurance reform plan and 7-point legal reform plan for the states, which was recently presented to the National Conference of State Legislatures.

NICO is a non-profit, non-partisan consumer organization which monitors the insurance industry. It was founded by Hunter in 1980.

insurance regulators should implement thorough data-verification techniques, including the use of outside auditors if appropriate. Second, insurers should be required to disclose fully both premium and investment income so that valid rate regulation may be implemented. Third, state insurance regulatory bodies should be empowered to regulate reinsurers and excess and surplus-line carriers. Fourth, states should develop reinsurance programs. Finally, citizens' insurance boards, modeled after the existing citizens' boards in the utility area, should be established so that purchasers of insurance have a role in the oversight of the insurance industry.

CONCLUSION

As numerous insurance industry officials have admitted, the industry itself has caused the current "crisis" in the affordability and availability of insurance. It therefore is not surprising that no evidence exists either that the tort system has caused the current problems or that tort legislation would make insurance more available or less expensive. Such legislation would, however, deny injured individuals fair compensation and diminish the incentives for safety that the tort system creates. The solution to problems of affordability and availability lies in insurance reforms that counterbalance the industry's cycle and that help prevent the industry from engaging in subjective pricing and arbitrary coverage decisions.

Insurance Market Conditions in Some No-Tort-Reform States,
August 1986

<u>State</u>	<u>Tort Reform enacted?</u>	<u>Condition of Insurance Market</u>	<u>Source</u>
Arkansas	<u>None</u> (Legislature not in session)	"Not only has availability improved sharply, but prices are dropping in some lines. Availability is easing across the board, except for pollution."	Conversation with Insurance Commissioner Robert M. Eubanks, August 5, 1986
Arizona	<u>None</u> (vetoed by governor)	"The market is easing for property and short-tail liability lines. There are still some tough lines, but there is nothing that can't get placed. Medical malpractice insurance was never a serious problem. For every line there are at least two companies willing to write insurance. There is also an easing of pricing, even to the extent of a few inadequate rates."	Conversation with Insurance Commissioner David Childers, August 19, 1986
Delaware	<u>None</u>	"We have a market assistance plan, which has only received 3 applications. The inquiries indicate that there is no crisis. Day care is readily placed. Only pollution is difficult. Certainly, now there's no crisis."	Conversation with Insurance Department Official Mike Comegys, August 20, 1986
District of Columbia	<u>None</u>	"We never had any real crisis here. There were problems. Current profits for the industry are substantial. Some people who passed laws may feel they over-reacted. Price is a	Conversation with Deputy Insurance Commissioner James Montgomery, August 20,

		problem, but I expect easing once profit information gets out. The companies are like sheep."	1986
Georgia	<u>None</u>	"The market is easing. There are far fewer complaints. The tough lines are pollution and a few others. Directors and officers is now available. Regarding price, increases have slowed down. But we don't know how the credits are moving."	Conversation with Insurance Department Rate Analyst Greg Hawkins, August 19, 1986
Kentucky	<u>None</u>	"There are still problems, particularly with speciality risks, pollution, medical malpractice and amusement parks. There is no general easing."	Conversation with Insurance Department Official Vernon Johnson, August 19, 1986
Mississippi	<u>None</u> (limit on punitive damages vetoed by governor)	"There is no general easing yet. There is a problem in rural and hurricane risks."	Conversation with Insurance Commissioner George Dale, August 19, 1986
Montana	<u>None</u>	"There is no easing. Political subdivisions are tough."	Conversation with Insurance Commissioner Andrea Bennett, August 19, 1986
New Jersey	<u>None</u> (Legislature still in session)	"Availability is greatly enhanced except in liquor and environment."	Conversation with Insurance Commissioner Ken Merrin, August 13, 1986

Oregon	<u>None</u> (Legislature not in session)	"Four weeks ago we were getting 18 calls a day on our commercial hot line. Now we're down to 3 or 4. Most are on price, not availability. There's been a remarkable easing in the last several weeks, although liquor liability is still tough if they don't serve food. Pollution is a lot better. Prices have leveled off."	Conversation with Insurance Department Official Mary Alice DeJork, August 19, 1986
South Carolina	<u>None</u>	"A year ago there was trouble in all property/casualty lines, including property. Today availability for property and the shorter tail liability lines is greatly eased. For the very long tail lines, such as pollution, there is still some problem. Demand from insurers for increased market share has dramatically increased."	Conversation with Insurance Department Actuary Martin Simons, August 14, 1986
Tennessee	<u>None</u>	"A few markets are easing. For example, a few weeks ago, there was one market for day care, today there are 3 or 4. There are still pockets of problems, such as product and pollution."	Conversation with Insurance Department Rate Analyst Dick Weber, August 20, 1986
Virginia	<u>None</u>	"Mainline stuff is easing greatly, such as product liability. Prices are still going up but at sharply reduced rates. Lines still troubled are directors and officers, malpractice and environmental."	Conversation with Deputy Insurance Commissioner Paul Synott, August 14, 1986