Mostly cloudy; tomorrow, chance of showers (Details on Page Two)

The Star-Ledger

EDITION ★★★★

Vol. 74, No. 53 · The Newspaper for New Jersey · Newark, N.J. Wednesday, April 22, 1987 · Price: 15 cents

GAO reports insurance industry made billions in midst of 'crisis'

ILE NO. OS: 190.050-02

By J. SCOTT ORR
Star-Ledger Washington Bureau

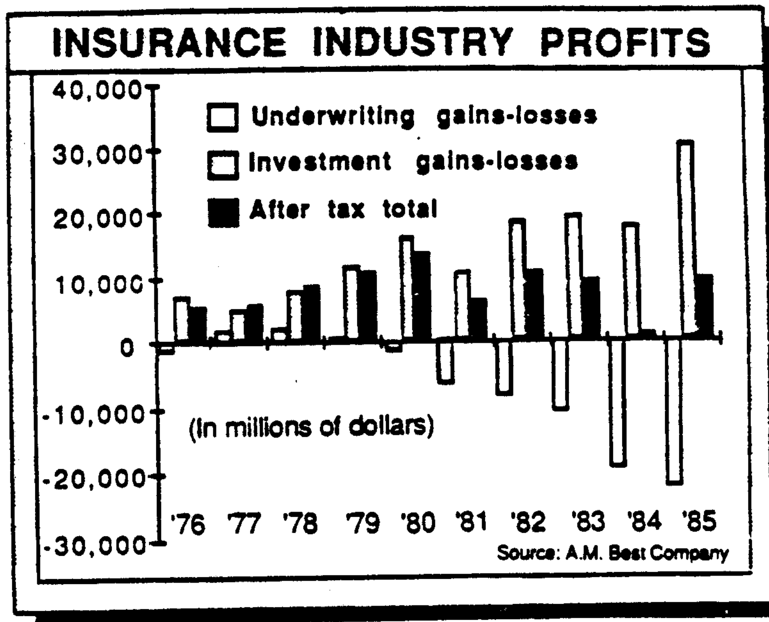
WASHINGTON—The insurance industry has made billions of dollars in profits during the past decade, a time when it has continually boosted premiums, according to a General Accounting Office (GAO) report unveiled yesterday.

Assistant Comptroller General William J. Anderson told a House subcommittee yesterday that despite poor performances in some segments of the industry, property and casualty insurance generally has been profitable.

"Despite faring poorly in recent years, the industry's profitability in terms of its rate of return on net worth over this 10-year period was comparable to that of other industries, such as banking, transportation and utility industries," Anderson said.

Rep. James Florio (D-1st Dist.), chairman of the subcommittee on commerce, consumer protection and competitiveness, said the GAO findings "raise many questions relevant to our deliberations on the insurance crisis."

"First among the questions that must be answered is whether, in the face of these profits, insurance rates are going to start coming down," Florio said.



Star-Ledger Graphic

The Florio subcommittee, which has jurisdiction over insurance issues, is looking into ways in which Congress and the government can help ease the insurance crisis, which has left many businesses unable to afford liability insurance.

The New Jersey Legislature has a number of bills pending that would alter aspects of the system of liability insurance, including such areas as auto coverage, in an effort to ease availabil-

Please turn to Page 15

Continued from Page One

ity of certain coverages and to make them more affordable.

While some industry spokesmen have said the availability crisis has abated, there are many in New Jersey who insist it is just as difficult to obtain adequate liability coverage now as it has been for the last several years.

In defending the industry, however, Mavis A. Walters, senior vice president with the Insurance Services Office, pointed out that in recent years many insurers, especially small companies, have faced serious financial problems.

She admitted that the industry has continued to make a profit, but added that 15 companies became insolvent in 1986 and that 56 companies failed over the last three years. In addition, 110 insurer groups had after-tax losses in 1986.

Still, Walters said that industrywide, 1986 was a very good year for insurers: After-tax net income amounted to $12.7 billion, up from $1.9 billion earned in 1985 and $800 million in 1984.

She defended the huge gain, however, saying the figure reflects a 13.1 percent return on net worth, compared with the median among Fortune 500 companies, an 11.6 percent return on net worth. The 1985 return on net worth for insurers was 3.9 percent, and 1.8 percent in 1984.

In addition, Walters said, much of the increased profits came from the sale of assets. She added that 1986 included an unusually small number of natural disasters.

The GAO report looked only at the decade ending with 1985 and found that overall the property and casualty insurance industry gained a combined total of $81 billion.

"This income resulted primarily from investments the industry made with funds collected from premiums. Over this 10-year period, the industry had investment income and capital gains of approximately $144 billion," Anderson said.

"Insurance companies were making billions of dollars in after-tax profits while suggesting they had to drastically raise premiums because they were losing money on general liability and medical malpractice insurance," Florio said.

Joining in criticizing the industry was the National Insurance Consumer Organization (NICO), which charged that the insurance industry frequently underestimates its after-tax profits.

"Many insurance industry experts believe that the profitability figures released by the industry frequently understate its true profitability," said NICO president J. Robert Hunter.

The Burden of Profitability

Your friendly insurance company may have repeatedly told you in recent years how much its losses on casualty and property insurance have been — but Congress has gotten a different story from the General Accounting Office.

The GAO, the nonpartisan fact-finding agency for Congress, took a look at the insurance business at the behest of a House Commerce subcommittee dealing with insurance matters. The subcommittee is considering federal regulation of insurance underwriting in the wake of complaints from businesses and public agencies that casualty and property insurance premiums are so high they are having to cut their budgets elsewhere — or risk going uninsured.

It is true, the GAO conceded, that in the 10 years 1976-85, insurance firms paid out $64.8 billion more in casualty and property damage losses than they received in premiums. That is but a part of the story, though. In the same decade, the insurers took in $144.3 billion in after-tax income on investments, and got back another $1.6 billion in tax refunds and tax credits. That left net income of almost $81 billion.

That figure, William J. Anderson, the assistant comptroller general who testified for the GAO, meant the insurance business' "profitability in terms of its rate of return on net worth over this 10-year period was comparable to that of other industries, such as the banking, transportation, and utility industries."

Not so, said Mavis Walters for Industry Services Office, the insurers' research arm. He said insurance underwriters only slightly outperform other businesses in good years, while dramatically underperforming them in bad. Besides, he said, the insurers disagree with the GAO on the discounting of reserves in figuring profits on investments. The GAO conceded the two methods brought different results, noting that if it had used the insurers' preferred method, the 10-year net would have been *only* $54 billion.

For the same reason, Anderson and Walters disagreed on profit estimates for 1986, the year so many premium rates went up in the face of what the insurance business termed huge threatened losses. Anderson put 1986 profits at $19 billion; Walters said they were only $12.7 billion.

The difference in such numbers is the crux of the issue of federal regulation. The insurance companies prefer state regulation, because from state to state investment income and the discount on reserves are treated differently in determining what premium rates are fair and what are excessive.

The major insurance crisis in the United States today is not the relative profitability of those who write the policies. Rather, it is the effect of sometimes oppressive premium rates on those who must protect their means of livelihood by buying the policies. If federal regulation is not the way to achieve uniformity and reasonableness in rate-setting, the burden is on the insurance business to use some of that $81 billion, or $54 billion, to find a satisfactory alternative.

Tampa Tribune Apr. 27th, 1987