**Heartland Institute Responds to Misleading Study on Property and Casualty Insurance Rates**

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WASHINGTON, DC – A new study from the Consumer Federation of America claiming that recent homeowners’ insurance rate increases are unjustified relies on apples-to-oranges comparisons of homeowners insurers to the broader property and casualty industry.

Authored by the CFA’s insurance director, J. Robert Hunter, [the study](http://www.consumerfed.org/pdfs/InsuranceRegulationHurricaneRiskDisappearingCoverageStudy2-12.pdf) correctly diagnoses a problem of catastrophe risk being shifted from the private sector onto state and federal programs and residual market entities. But it prescribes precisely the wrong medicine to address that problem. The growth of taxpayer-backed insurance entities is a direct result of rate suppression. Suppressing rates even further would make matters worse, not better.

The following statements from insurance experts at The Heartland Institute – a free-market think tank – may be used for attribution. For more comments, refer to the contact information below. To book a Heartland guest on your program, please contact Tammy Nash at [tnash@heartland.org](mailto:tnash@heartland.org) and 312/377-4000. After regular business hours, contact Jim Lakely at [jlakely@heartland.org](mailto:jlakely@heartland.org) and 312/731-9364.

“CFA’s overall conclusions and recommendations are wrong – dead wrong – in just about every case. Their report is based on faulty assumptions, excluded data, and bad math. There are some grains of truth in CFA’s findings, particularly when it comes to some insurers’ efforts to shift risk to taxpayers, but the overall findings are a very poor basis for formulating public policy.”

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“No one would deny that the property and casualty industry as a whole has been overcapitalized in recent years, although contrary to the CFA’s claims, few in the industry would regard this as desirable. Amid a years-long soft market of flat or declining rates in most lines of business, combined with record-low interest rates that have provided virtually no attractive investment opportunities, it has been harder than ever for insurers to earn attractive rates of return.

“What the CFA study obscures is that it uses surplus and premium data for the entire property and casualty industry – including many lines of business, like workers’ compensation, medical malpractice, and directors and officers coverage, where natural disasters simply aren’t an issue – to argue that rates for homeowners insurance, specifically, should be suppressed.

“The study bemoans the end of the era when P&C insurers regularly ran annual underwriting losses, which the industry did from the late 1970s until 2003, and counted on investment income to make up the difference. Alas, the days of double-digit interest rates that permitted such practices is long-gone and unlikely to return in the foreseeable future. Moreover, as consumer advocates, the CFA should recognize that such practices were always inherently irresponsible, and it is a positive development that regulatory capital and rating agency rules no longer permit such irresponsibility.

“An insurer’s primary responsibility to its policyholders is to remain solvent and be able to pay any and all claims they present. Given the rampant irresponsible risk-taking we have seen by so many segments of the financial services industry in recent years, P&C insurers should be commended for taking a responsible approach to parsing and pricing risk appropriately.”

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