Consumer Federation of America
1620 I Street, N.W., Suite 200 * Washington, DC 20006

February 15, 2008

Eric R. Dinallo
Superintendent of the New York State Insurance Department
25 Beaver Street
New York, New York 10004

Dear Superintendent Dinallo:

On January 24, 2008, the Consumer Federation of America (CFA) forwarded to you our detailed report concluding that property/casualty insurers in 2007 continued to systematically overcharge consumers and reduce the value of home and automobile insurance policies, leading to profits, reserves, and surplus that are at or near record levels (full report available at: www.consumerfed.org/pdfs/2008Insurance_White_Paper.pdf).

The performance of property-casualty insurers in New York has been particularly poor from a consumer perspective. For example, loss ratios in New York have usually ranked well below the national average over the last five years. Twenty years ago, the property-casualty insurance industry nationally paid out over 70 cents in benefits to policyholders for each premium dollar they paid in. Now they are paying out about 60 cents or even less nationally and in New York. The loss ratio for homeowners insurance in New York over the last five years, was an astonishingly low 46 percent, 16 points lower than the national average. Personal auto insurance has also been significantly below the too-low national averages as well, by six to nine points. These numbers obviously indicate that home and auto insurance policies have become a poor value for too many consumers in New York State. A low benefit payout is bad even if the insurers are earning reasonable profits. However, as we document in our study, insurers have been earning excessive profits nationally and are even more profitable in New York.

Consider these startling data, which reveal the plight of New York consumers:

NEW YORK	5-YEARS ENDED 12/31/2006	3-YEARS ENDED 12/31/2006	2006
US-all lines	63%	61%	52%
NY-all lines	60%	57%	53%
US-home	62%	62%	48%
NY-home	46%	45%	43%
US-PP Auto	61%	59%	58%

NY-PP Auto	55%	50%	51%

Twenty-five years ago, New York State was the acknowledged leader in this country in implementing innovative and meaningful standards to protect insurance consumers. Unfortunately, this is no longer the case as New York has become, at best, mediocre in protecting insurance consumers. In recent years, New York has, without legislative changes, moved toward less regulatory oversight of pricing by administrative fiat, essentially converting the prior approval system into a use and file system. This weakened oversight has clearly failed consumers in the state. As you lead the State Insurance Department under a new Administration, we urge you to take immediate steps to rein in overpricing by insurers in New York and to better protect New Yorkers from the abuses cited in our report. It is time for New York to return to its place as a leader in consumer protection.

According to CFA's calculations, the typical American family has paid *at least* $870 too much for property/casualty insurance in the last four years. In our report, we document the excesses in both surplus and reserves held by property/casualty insurers. The Insurance Information Institute (III) says that the industry has "excess capital" of up to $100 billion. Four years ago, III said the capital was "a matter of concern." The current capital situation does not reflect the huge amounts of capital used by insurers in recent years to buy back their own stock, buy businesses, or pay to increase salaries paid to management (Allstate alone has purchased more than $15 billion of its own stock in the last few years). Nor does the $100 billion in excess surplus take into account the $53 billion in reserves that Insurance Services Office (ISO) reports as "redundant." Four years ago, reserves were sufficient to cover the risk that insurers had underwritten, according to a number of accepted measures of industry financial solidity.

Thus, the amount of unwarranted funds collected from consumers that the industry itself has reported is as much as $153 billion. CFA estimates that this amount is probably closer to $175 to $200 billion. However, even using an ultra-conservative estimate of $100 billion in excessive surplus and reserves, Americans have been overcharged by the equivalent of $870 per household in the last four years. Consider this: it would take more than five Hurricane Katrina-sized losses to eliminate just these unwarranted reserves and surplus. Even if such an unlikely series of losses occurred, the insurance industry would still be extremely safe financially and consumers would still be paying rates that were excessive.

As the above table reveals, in New York the five-year loss ratio from 2002 to 2006, for all property/casualty lines of insurance was 60 percent, three points lower than the national average of 63 percent. New York was also below the national averages when looking at the three-year data, but was one point higher than the national average in 2006 (an excessively profitable year nationally). The results for homeowners insurance over the last five years were much worse. Loss rations in New York, at 46 percent, were16 points lower than the national average and were also lower over the last three years or in 2006 alone for private passenger car insurance, New York was six to nine points below the national averages for all periods studied. It is important to note that this was a period of excessive returns nationally in the auto line.

It is very troubling that regulators in New York, once a leader in consumer protection in the insurance arena, have allowed insurers to overprice policies and underpay claims in recent years. New York regulators also ignored calls for reform proposed by the New York City Comptroller in an important report entitled "Highway Robbery: The High Cost of Automobile Insurance in New York," issued in October 2006.

CFA calls on you to take immediate action to end the excessive rates being charged in New York. We would appreciate knowing about any plans you have to accomplish this goal by March 30, 2008.

Sincerely,

J. Robert Hunter

J. Robert Hunter

Insurance Director