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Contact: Joanne Doroshow, 212/267-2801

Insurance Companies Raking in Huge Profits

Contrary to what insurance lobbyists may be telling lawmakers, newly-released data shows that insurance company profits, including those of medical malpractice insurers, are booming and insurance analysts are privately raving about it.

According to the September 15, 2003 issue of *Business Insurance* (“Market conditions still ripe for insurer profitability; Buyers to see rate hikes ease”), 14 property/casualty insurers saw a 35.9% increase in net income, to \$7.5 billion, in the first half of 2003. Only Hartford booked an \$888 million first-half loss, reflecting a \$3.91 billion pretax charge for asbestos reserves in the first quarter.

By far the largest insurer reporting was American International Group, a major medical malpractice writer. AIG's net income increased by 30.3% in the first half of 2003, and it had a shockingly low combined ratio of 92.7%. That means it is making a lot of money even before adding in investment income.

In addition to undermining insurers' arguments that they are suffering gigantic losses due to claims and payouts, an assertion that underlies their principal argument for “tort reform,” this new data has additional significance – it may be signaling the end of the “hard market,” which is characterized by skyrocketing rates and reduced availability and is driving the current push for “tort reform.” Americans for Insurance Reform spokesperson J. Robert Hunter, Director of Insurance for the Consumer Federation of America, said, “As in previous insurance cycles, the insurers are raking in the dollars, belittling their results as ‘inadequate’, hiding much of their spoils in massive reserve hikes and, quietly, starting to compete again, setting the stage for the soft market, and lower prices, ahead.”

Here's what some insurance analysts had to say about the first half 2003 results, according to *Business Insurance*:

“I think the industry did fantastic, and my expectation is that we'll see more of the same in the second half.” — Chris Winans, senior property/casualty analyst, Lehman Bros.
There have been some “amazing cash flow numbers.” — Stephan Petersen, Cochran, Caronia & Co.

“Underwriting margins should remain good and, in fact, likely improve modestly because *price increases have been exceeding claims inflation* for the most part (emphasis added).” — Jay Cohen, Merrill Lynch.

“I think it's going to continue to get better. I don't see any clouds on the horizon.” — James Inglis, Philo Smith & Co.

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Americans for Insurance Reform is a coalition of over 100 state and national groups seeking stronger regulation of the insurance industry. <http://www.insurance-reform.org>