



News Release

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Two Leading State Attorneys General and State Insurance Commissioner Strongly Challenge the Insurance Industry's Price-Gouging of Doctors – Call for Oversight

New Study on Rising Insurance Rates and Dropping Claims Leads Attorneys General to Proclaim “No Excuse” and “A Matter of Life and Death”

New York – In response to a new study released today by several national consumer organizations entitled *Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry*, two state Attorneys General and one state Insurance Commissioner responded with strong statements condemning the actions by insurers to dramatically raise insurance rates for doctors while claims are dropping.

“The numbers underscore the need for much tougher, more aggressive oversight to prevent and punish profiteering,” Connecticut Attorney General Richard Blumenthal said. “Federal and state regulators should thoroughly scrutinize recent rate increases and take appropriate corrective action. Affordable medical malpractice insurance is critical to public health. Expensive insurance rates become a matter of life and death when they drive doctors out of business - as is happening in Connecticut and nationwide. Insurance company greed can be hazardous to our health.”

“The data in the Annual Statements filed under oath with state insurance departments, which this Report discloses, call into question much of what the medical malpractice

insurance industry has been saying publicly during the past several years,” said Missouri Attorney General Jay Nixon. “There is no excuse for malpractice insurers doubling their rates while their claims payments decrease.”

Michigan Office of Financial and Insurance Services Commissioner Linda A. Watters said, “We are definitely disturbed by the numbers in this report, which offers evidence that doctors may be paying excessive premiums. In the market competition study that we recently issued, we considered loss ratios below 50 percent as patently excessive. If these carriers truly have loss ratios that are this low and yet they are still increasing rates, one has to wonder if they're gouging.”

Medical malpractice insurance rates for doctors have skyrocketed in recent years even though, as this study now confirms, claim payments are down. These findings suggest that doctors have been price-gouged for several years as insurance industry profits have ballooned to unprecedented levels. AIG, under investigation by state and federal authorities for its business practices, and HCI, a subsidiary of HCA, the largest for-profit hospital chain, are among the worst offenders.

Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry's conclusions are based upon an examination, for the first time, of statements supplied under oath to state insurance departments by the nation's top medical malpractice insurers. The study reveals that the insurance industry has been overcharging doctors significantly despite the fact that their claims payments, in real terms, have dropped since 2000. Moreover, contrary to the impression they have given the doctors and the general public, the “losses” that medical malpractice insurers predict they will pay in the future – the insurers' purported basis for current rate hikes - are down as well.

Jay Angoff, author of the study, former State of Missouri Insurance Commissioner and a renowned expert on insurance issues, said, “The leading malpractice insurers' Annual Statements indicate that they have been raising their premiums even though both their actual claims payments and their projected future claims payments have been falling. The Annual Statement data thus prove that doctors have been overcharged during the last several years. Those overcharges are obviously bad news for doctors, but they have resulted in good news for investors in the leading pure malpractice insurance stocks, which have doubled during the last three years while the stock market as a whole has remained flat.”

J. Robert Hunter, Director of Insurance for the Consumer Federation of America, which co-released the report, said, “Doctors and consumers deserve to see the facts behind the *true* crisis, which is that insurance companies are price-gouging their doctors, not an explosion in claims.” Hunter is the former Texas Insurance Commissioner and Federal Insurance Administrator.

Joanne Doroshow, Executive Director of the Center for Justice & Democracy, which commissioned the report, stated, “To put it bluntly, if you look at what the insurance companies say about why they raise premiums, and then look at the data in this report,

the numbers just don't add up. The facts are very simple: medical malpractice payouts are down yet insurance companies have significantly increased premiums. This shows that the entire campaign to limit liability for doctors over the last several years by capping compensation to injured patients has been a fraud, and that based on these data, insurers must know that it has been a fraud."

"Numbers do not lie. Insurers are increasing their revenues by billions of dollars and doctors are paying the price," stated Frank Clemente, Director of Public Citizen's Congress Watch, which co-released the report. "The report shows that the doctors may be victims of insurance malpractice," added Lindsey Johnson, Consumer Advocate for U.S. PIRG, which also co-released the study.

Key findings:

Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry analyzes each of the 15 largest AM Best-rated medical malpractice insurers in the United States and is based entirely on data from Annual Statements filed under oath with state insurance departments. It finds:

- 1 **Actual payouts.** Over the last five years, the amount the major medical malpractice insurers have collected in premiums has more than doubled, while their claims payouts have remained essentially flat. The increase in the premiums collected by these companies was 14 times as great as the increase in their claims payments on a gross basis and 21 times as great as the increase in those payments on a net basis (after reinsurance).
- 2 **Incurred Losses.** Incurred losses are claims that an insurer projects it will pay in future years on policies in effect in that year. When insurers raise their rates to a much greater extent than their actual claims payments would justify, they argue that the rate increase is necessary because they must increase their reserves to account for what they expect will be higher claims payments in the future. However, the report shows that some malpractice insurers substantially increased their premiums while both their claims payments ***and their projected future claims payments were decreasing.***
- 3 **Surplus.** Surplus is the extra cushion an insurance company accumulates over and above the amount it has set aside to pay its estimated future claims. Because of the overall surge in malpractice premiums with no corresponding surge in claims payments during the last five years, the leading malpractice insurers have increased their surplus by more than a third in only three years, and they are now charging more for malpractice insurance than either their actual payments in malpractice cases or their estimated future payments in malpractice cases would justify.

The following companies are examined in the report: Lexington Insurance Company; GE Medical Protective Company; The Doctors Company; ISMIE Mutual Insurance

Company; Health Care Indemnity, Inc.; Mag Mutual Insurance Company; Medical Assurance Company; ProMutual Group; First Professional Insurance Company; State Volunteer Mutual Insurance Company; Norcal Mutual Insurance Company; ProNational Insurance Company; Continental Casualty Company; American Physicians Capital, Inc.; and Evanston Insurance Co.. Among specific company findings are:

- 4 **Healthcare Indemnity, Inc. (HCI)**, an affiliate of HCA corporation, increased its premiums by \$173 million, or 88%, while its claims payments fell by \$74 million, or 32%. As a result, in 2004 it paid out only 43 cents in claims for each premium dollar it collected.
- 5 **Lexington Insurance Company**, an affiliate of AIG, reported that its net written premiums increased from \$21.1 million in 2000 to 483.0 million in 2004—an increase of \$461.9 million, or 2200%—while its net paid losses increased by only \$52.9 million. As a result, in 2004 it paid out only 14 cents in claims for each premium dollar it collected.
- 6 **ProNational Insurance Company**, an affiliate of ProAssurance Corporation, increased its premiums by \$87 million, or 79%, while its claims payments fell by \$43 million, or 63%. As a result, in 2004 it paid out only 13 cents in claims for each premium dollar it collected.
- 7 **Medical Assurance**, another ProAssurance affiliate, increased its premiums by \$151 million, or 89%, while its claims payments fell by a third. As a result, in 2004 it paid out only 10 cents in claims for each premium dollar it collected.

About the Study:

Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry was prepared by former Missouri Insurance Commissioner Jay Angoff and was commissioned by the Center for Justice & Democracy (CJ&D). The report was co-released by several national consumer organizations: CJ&D, Alliance for Justice, Consumer Federation of America, Public Citizen, USAction and U.S. PIRG.

Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry is an analysis of the 2000-2004 performance of each of the 15 largest AM Best-rated malpractice insurers in the United States. The companies analyzed include both investor-owned stock companies, such as AIG-affiliate Lexington Insurance Company, and doctor-owned mutual companies, such as ISMIE Mutual Insurance Company in Illinois. All are well-established companies with long claims history.

For more information, contact the Center for Justice & Democracy, <http://centerjd.org>.