Did You Know Insurance Companies are Exempt from Federal Anti-Trust, Consumer Protection and Regulatory Laws?

Each year American families pay a larger portion of their family budget on insurance. If the cost is increasing, why is the protection they are buying decreasing?

ValChoice®

For half of American families, a simple accident, storm or medical problem can bring financial ruin, even when fully insured. For these 140 million Americans living paycheck to paycheck, an unpaid insurance claim is financially devastating and has become a leading cause of bankruptcy in the US.

While consumers are mandated to buy insurance, insurance companies have been allowed to increase prices and reduce the amount they pay back in claims. In fact, over a 20-year period, property/casualty insurance companies increased annual profits by $50 billion largely by reducing the amount they paid in claims to accident victims.

The number of Americans hurt by this is staggering and this injustice will continue until there's transparency showing which company's price fairly for the coverage provided and which are good and bad about paying claims. Providing this information is the mission of ValChoice. Every consumer in America who buys auto or home insurance will benefit from the ValChoice service. Click here to get a free report on your insurance.

The Evolution of how the Industry's "Promise to Protect" Eroded

The problems facing consumers of insurance originated in 1945 when Congress passed the McCarran-Ferguson Act exempting insurance companies from federal regulation, anti-trust and consumer protection laws. Rather than having the federal government protect consumers like it does in every other financial services market, insurance was deemed to be intrastate business and therefore regulated by states. The failure of this approach is that insurance is not intrastate business. Instead it's a trillion dollar segment of the U.S. economy, with broad international ties and near limitless financial resources available for lobbying and influence buying.

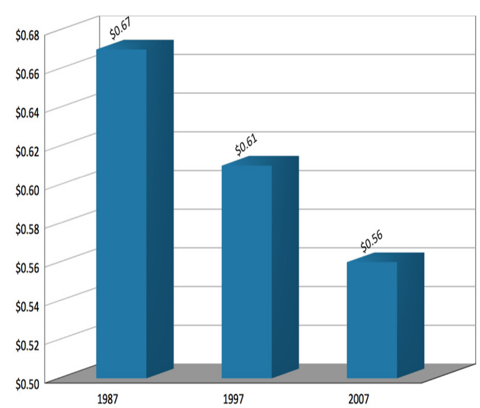


Chart 1: 20-year trend in ratio of price to loss compensation (loss ratio) for property/casualty insurance companies. Source: Consumer Federation of America, (CFA)

Protecting Consumers

One of the primary functions of regulators includes protecting consumers. In many states, the consumer protection activity is a multi-pronged effort with special emphasis on performing market conduct examinations and following up on consumer complaints. While these efforts are effective, the tools currently available to regulators are insufficient to achieve the objective of systematically eliminating problems. To eliminate problems, the tools used by regulators need to be supplemented with transparency. Transparency rewards companies for their good care of consumers and creates a competitive dynamic that rewards companies for improving performance.

Price Regulation as an Approach to Controlling Prices

The chart below shows the rate of increase in home insurance as compared to the Consumer Price Index (CPI). The rapid increase in home insurance prices compared to the CPI is an indication that current approaches to containing price increases are not working. By facilitating competition, transparency is a tool regulators should use to enable the free market to help control prices.

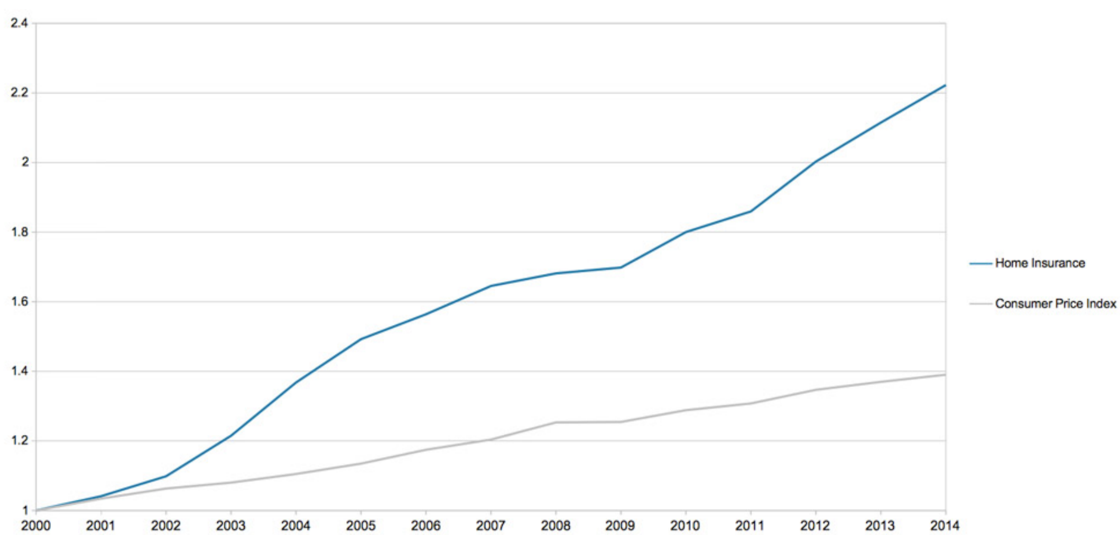


Chart 2: 15-year history of home insurance price increases compared to U.S. Consumer Price Index (CPI). Sources: Insurance price data from the Insurance

Information Institute[1], (iii.org); CPI data from the U.S. Department of Labor, Bureau of Labor Statistics.[2]

Chart 2 above shows that over the 15-year period from 2000 to 2014 the annual price increases of home insurance resulted in home insurance costs to consumers increasing at a rate 2.5 times greater than the rate of increase in the Consumer Price Index (CPI). This 15-year rate of increase in insurance translates into a doubling of home insurance prices every 12 years. By comparison, the 15-year rate of increase in the CPI yields a doubling of prices every 31 years.

Chart 3 to the right visually compares the difference in time required for prices to double for home insurance as compared to the Consumer Price Index.

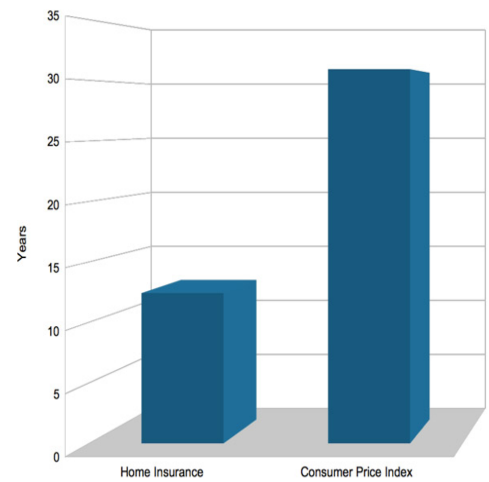


Chart 3: Years before prices double: home insurance, 12 yrs.; CPI, 31 yrs. Source: ValChoice, LLC

Making Matters Worse

There has been a transition of insurance companies from the traditional mutual company structure – formed to benefit policyholders – to publicly traded stock companies whose number one goal is to increase profits to benefit shareholders. The quest for increased profits creates a conflict of interest between shareholders and policyholders by motivating management teams to improve profits, a goal easily achieved by increasing prices and reducing coverage and claims payment.

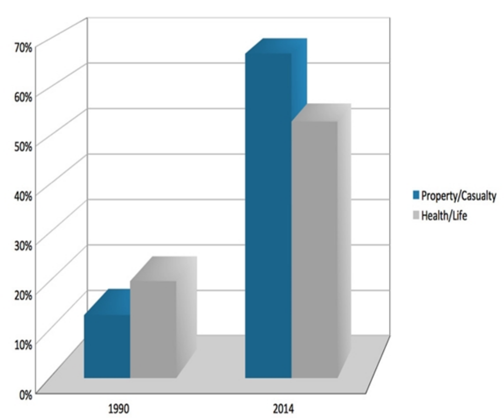


Chart 4: Percentage of top 15 insurers that are publicly traded, 1990 vs. 2014. Source: ValChoice, LLC

The Conflict Between Policyholders and Shareholders is Evident

The conflict between shareholders demanding profits vs. policyholders needing protection becomes apparent simply by analyzing the percentage of premiums paid in loss compensation.

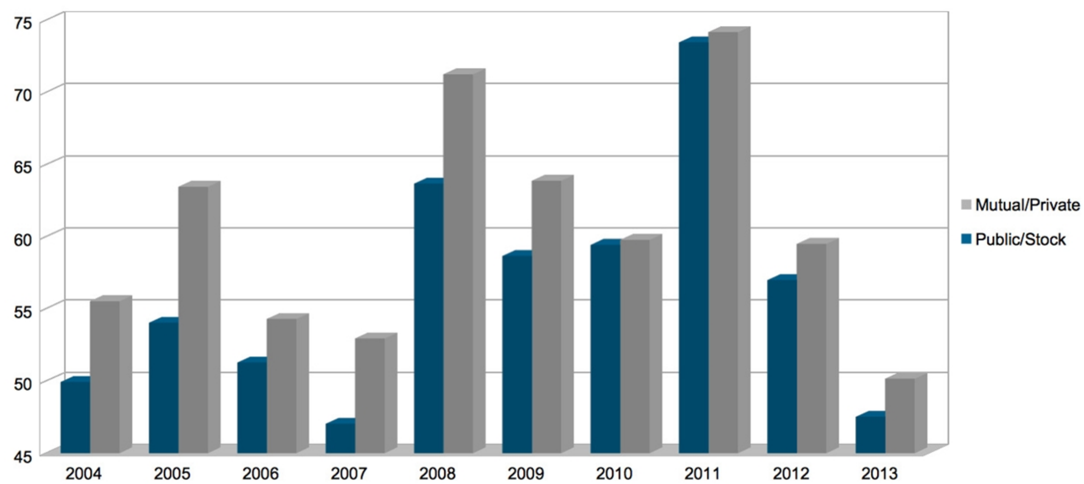


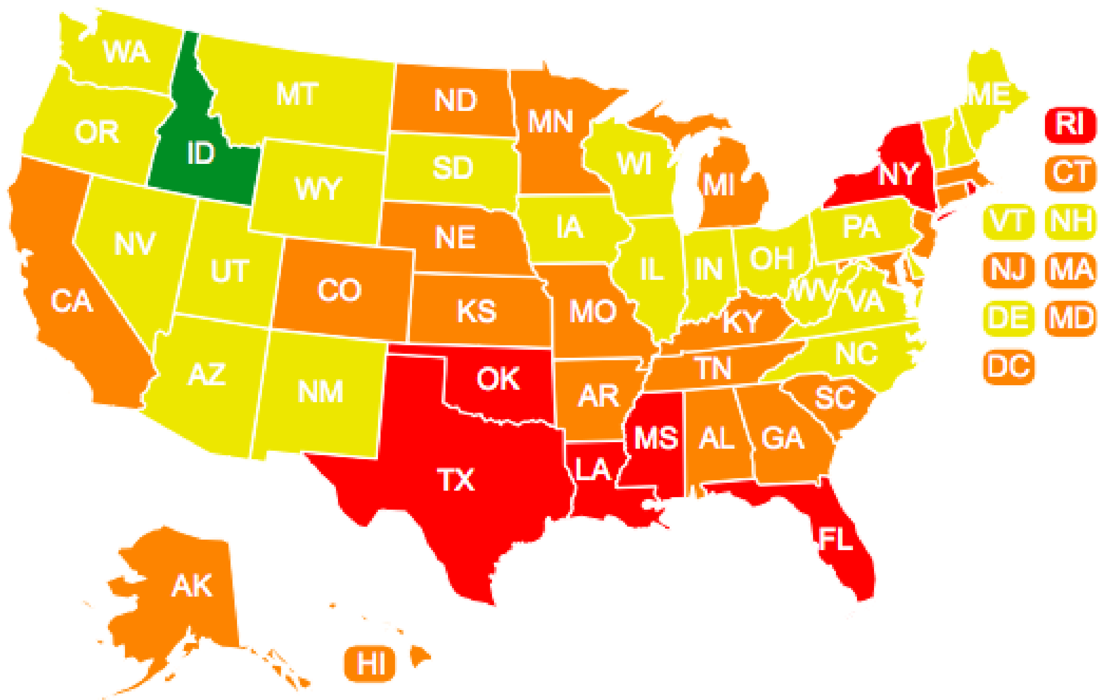
Chart 5: Percentage of premiums earned (adjusted for dividends paid to policyholders) paid as loss compensation for home insurance. Source: ValChoice, LLC

Chart 5 shows the percentage of premiums earned compared to losses paid for the ten largest home insurance companies -- representing over 61% of the market. The ten companies are split evenly with five as private/mutual companies and five as publicly traded stock companies. Over the ten-year period from 2004 to 2013, private/mutual insurance companies paid 8.6% more of the premiums collected in loss compensation.

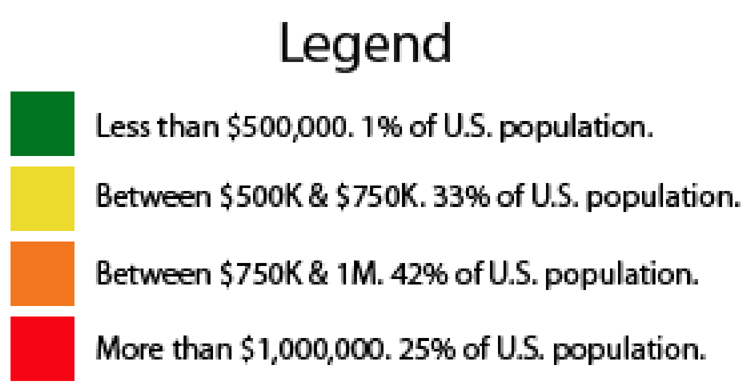
This conflict of interest is felt more broadly than just by customers of companies with shareholders that are focused on capturing profits. With a large percentage of the industry focused on shareholders before policyholders, the dynamics of the entire industry changes, even in the private/mutual companies. The result is that protection for everyone suffers. Without doubt, there are many people and companies working hard to protect and satisfy policyholders. However, the insurance industry needs a stronger focus on protecting policyholders, and transparency to show which companies are both the best and worst about protecting their policyholders. Click here to get a report on how good your insurance company is.

The Result

The result of the protected regulatory and legal environment insurers enjoy is unnecessary financial strain on consumers. Calculating the lifetime cost of auto and home insurance for American families shows insurance, excluding medical insurance, is an enormous burden. The map below shows by state how much a young adult can expect to pay for auto and home insurance for their family in a lifetime. The numbers are based on average costs and are not assuming an extravagant lifestyle.



Average lifetime cost of auto and home insurance for families. Source: ValChoice, LLC.



For young adults just beginning to get established financially, 99% live in states where the cost to their family[3] will be more than $500,000 for auto[4] and home[5] insurance. This isn't for fancy cars and an expensive home. This cost of insurance is for average cars and an average priced home. For the 78 million Americans -- 25% of the population -- that live in states where insurance costs are exceptionally high, this lifetime[6] cost jumps to over $1,000,000[7]. Click here to get the lifetime cost of auto and home insurance in your state.

Summary

With insurance, the important point often isn't the limits of the policy or the amount of the premium; it's whether the insurance company is willing to pay the claim. The founder of ValChoice learned this first-hand. After being hit by a car, three insurance companies all refused to pay his medical bills. He is now paying his experience forward by helping others avoid the same type of problem…. before an accident occurs.

About ValChoice

ValChoice® is the only company to provide consumers, agents and advisors with information on which home and auto insurance companies offer the best price, protection and service. The company's advanced analytics platform collects and analyzes over 1.5 million financial and complaint data points and delivers the results in an easy-to-use service that Forbes Magazine describe as "Carfax for insurance." Using ValChoice, consumers are finally able to shop for insurance based on value rather than making decisions blindly based on price or advertising campaigns.

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[1] Insurance Information Institute, iii.org, http://www.iii.org/fact-statistic/homeowners-and-renters-insurance

[2] U.S. Bureau of Labor Statistics data summarized and published by U.S. Inflation Rate Calculator, http://www.usinflationcalculator.com/inflation/current-inflation-rates/

[3] The average age for getting married is assumed to be 28, http://en.wikipedia.org/wiki/Age_at_first_marriage. The average number of kids is 1.86, http://www.answers.com/Q/How_many_children_are_in_the_average_American_family and the average wait after getting married is three years before having children, http://www.bustle.com/articles/79792-how-long-after-getting-married-do-couples-have-kids-apparently-the-answer-is-different-in-each

[4] Drivers are assumed to have a maximum of one insured vehicle beginning at age 18 and the industry average 2.08 vehicles after getting married. An average annual insurance expense is assumed throughout their lifetime. Average insurance expense is based on Insurance Information Institute (iii.org) data.

[5] The first home purchase is assumed to be 31 years old per the US News, http://money.usnews.com/money/personal-finance/articles/2012/12/10/first-time-home-buyers-are-missing-out-on-housing-recovery. The average insurance expense is based on information from the Insurance Information Institute (iii.org).

[6] Average life expectancy is assumed to be 79.8 based on Wikipedia, http://en.wikipedia.org/wiki/List_of_countries_by_life_expectancy

[7] Lifetime cost figures calculated based on fifteen years of average cost data from the Insurance Information Institute (III.org), an organization funded by the insurance industry. The III.org data available for the auto industry is for 2000 to 2014, showing an average escalation rate of 1.6%. The III.org data available for the home insurance industry is for the years 2000 to 2012. This was supplemented with 2013 and 2014data from Perr & Knight in order to have a full fifteen years of history. The escalation rate for home insurance over this period of time was 5.8%. Examples of locations where the lifetime cost of auto and home insurance is more than $1,000,000 include: The Florida, Louisiana, Mississippi, New York, Oklahoma, Rhode island and Texas.