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New York home and auto insurers accused of overcharging customers

Insurers need to communicate better with consumers, lawmakers

Home insurers in New York paid just 46 cents in claims per dolllar in revenues over the last five years, while auto insurers paid just 55 cents, according to three national consumer groups who accuse them of "systematically" overcharging the state's consumers.

According to a report released Thursday, property and casualty insurers in New York have paid out much less of their premium revenues to cover claims than in most other states.

The study by the Consumer Federation of America, Consumers Union and New York Public Interest Research Group ranked the state 44th for homeowners insurance and 34th for auto, out of 51, including the District of Columbia.

Specifically, a national report last month by the three groups found that the industry's average "loss ratio" nationwide — the percent of premiums paid out in claims — was 62 percent for home insurance and 61 percent for auto.

But in New York, it was 46 percent for home — 16 points lower than the national average — and 55 percent for auto.

The groups accused the industry of "sharply" raising rates for homeowners and commercial insurance, cutting back on coverage for "tens of thousands" of Americans living in coastal areas, and underpaying claims. And it said the companies have gotten taxpayers, via the federal government, to provide a backstop for terrorism insurance.

As a result, the study said, the industry had record profits in 2004, 2005 and 2006, and may report a near-record for 2007.

"Twenty-five years ago, New York State was the acknowledged leader in this country in implementing innovative and meaningful standards to protect insurance consumers," J. Robert Hunter, director of insurance at Consumer Federation, and former Texas insurance commissioner, said in a letter to New York Insurance Commissioner Eric R. Dinallo.

"Unfortunately, this is no longer the case, as New York has become, at best, mediocre in protecting insurance consumers," Hunter wrote.

Ellen Melchionni, president of the New York Insurance Association, an industry trade group, ridiculed the report, saying other studies have shown lower industry profits, not higher.

"You compare our industry to other industries and look at the level of growth in profits," she said. "It's never even close to what the other industries report."

The consumer groups urged Dinallo — a former state prosecutor who later became general counsel for a large insurance brokerage — to investigate and "use his office's full authority to make sure the rates consumers pay are fair," said Chuck Bell, programs director for Yonkersbased Consumers Union, publisher of Consumer Reports.

"At a time of record profits for insurance companies and falling claims payments for consumers, New York consumers should see some relief from high rates," Bell said in the release.

The activists also called on state regulators to scrutinize high premiums and require reductions; monitor the use of credit scoring and similar factors in setting rates; examine computerized claims settlement procedures; block the use of short-term catastrophe modeling to set rates; end geographic discrimination in coverage; and require improved dislosures of policies and practices.

Finally, the activists recommended creating an independent consumer advocate to represent the interests of customers in policymaking.

State regulators defended their efforts, citing their record of responding to consumer complaints, helping with appeals, stopping insurers from non-renewing policies last year in coastal areas like Long Island, protecting senior citizens and monitoring both insurer profitability and premiums.

However, regulators also questioned some of the statistics cited in the study, and noted that some of the recommendations are already part of state law — such as a prohibition on using catastrophe modeling in setting rates.