Amy Bach and United Policyholders Raise Issues About Insurance Executives Taking Monies Through Excessive Payouts

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Amy Bach's recent LinkedIn post yesterday highlighting concerns about excessive compensation in the insurance industry has struck a chord with many policyholders and consumer advocates. Bach raised these issues in a panel discussion at the American Academy of Actuaries. Her observations are particularly pertinent to the ongoing challenges faced by consumers in the insurance market, especially in Florida. I noted the issue raised by Amy Bach in How Florida Insurance Executives Siphon Off Millions and Leave Their Companies Bankrupt.

Bach's call for regulators to limit or disallow excessive compensation, advertising expenses, sporting event sponsorships, and penalties for unfair sales and claim-handling practices is well-founded and supported by recent investigations and reports. The issue of excessive executive compensation in the insurance industry, particularly as it relates to Florida-based companies, has been a growing concern that deserves closer scrutiny.

A Tampa Bay Times investigation led by Lawerence Mower uncovered alarming instances of disproportionate executive pay among Florida-based insurance companies. In 2015, the CEO of Heritage Insurance Holdings, a relatively small Florida-based insurer, earned a staggering $27.3 million. This compensation was more than double that of State Farm's CEO, despite Heritage overseeing only 0.3% of State Farm's policies. This disparity raises serious questions about the allocation of resources within these companies and the potential impact on their financial stability and ability to pay claims.

The investigation also revealed that between 2014 and 2018, the CEO of Fort Lauderdale-based Universal

Insurance Holdings consistently received annual compensation ranging from $14 million to $25 million. In 2017, Universal's CEO was the highest-paid property and casualty insurance company executive in the nation, earning $19.3 million. These figures are particularly troubling when considering the financial challenges many Florida homeowners face in securing affordable insurance coverage.

The American Policyholder Association, through Doug Quinn, has highlighted how these excessive compensation packages and dividend payments have affected the financial stability of Florida insurers. For instance, Heritage Insurance's former chairman, Bruce Lucas, averaged nearly $10 million per year in compensation between 2013 and 2020. In one particularly egregious year, Lucas received $27 million in compensation and cashed in $19 million in stock. Despite recent financial troubles, Heritage continued to pay substantial dividends until August 2022, amounting to nearly $7 million annually. "Major Florida Property Insurers Paid Out Excessive Executive Compensation Packages, Dividends for Years" documented these findings

These practices are not isolated incidents. A recent review by the Consumer Federation of America (CFA) revealed that CEOs of six major insurance companies each received over $12 million in compensation in 2022 alone. The top 10 insurance executives were paid over $130 million in 2022, with their combined earnings over two years (2021-2022) amounting to more than $253 million. This excessive compensation occurred while insurance premiums skyrocketed, with auto insurance costs increasing by 19% compared to the previous year.

The impact of these practices on company stability and consumer premiums cannot be overstated. Financial autopsies on companies that became insolvent between 2011 and 2018 consistently blamed high salaries and fees to affiliated companies as contributing factors. The 2008 failure of Tampa-based Poe Insurance Group, which left Floridians responsible for about $850 million in outstanding claims, was directly linked to large payouts to executives. Florida's insurance regulators should be concerned if these issues continue today.

These findings support Amy Bach's concerns about excessive compensation in the insurance industry, particularly in Florida. The practice of siphoning off profits that could otherwise be used to build company surplus and pay claims during high-loss years is deeply troubling. It undermines the fundamental purpose of insurance as a mechanism for risk pooling and financial protection for policyholders.

Source:
https://uphelp.org/amy-bach-and-united-policyholders-raise-issues-about-insurance-executives-taking-monies-through-excessive-payouts/ Date: April 29, 2025

The regulatory environment in Florida has been criticized for allowing these practices to continue. While insurance companies in the state are closely regulated, with caps on payouts and profits, their parent and sister companies are largely unregulated. This loophole has made the small domestic companies that dominate Florida's market more lucrative to investors but potentially less stable and less able to meet their obligations to policyholders.

The situation in Florida serves as a cautionary tale for the rest of the nation. As climate change increases the frequency and severity of natural disasters, the financial stability of insurance companies becomes even more critical. If profits are continually diverted to executive compensation and dividends rather than being reinvested in the company or used to build reserves, insurers may find themselves ill-prepared to handle large-scale losses.

The practice of excessive executive compensation contributes to the rising cost of insurance for consumers. As companies pay out millions to their top executives, they often justify rate increases by citing increased risks and costs. This creates a situation where policyholders are effectively subsidizing exorbitant executive pay through higher premiums while potentially receiving reduced coverage or facing greater difficulty in having their claims paid.

The insurance industry's response to these criticisms has often been to blame people like me and excessive litigation for their financial woes. However, as the CFA's research suggests, if litigation were truly the primary driver of increased costs, we would expect to see high levels of litigation across all companies. Instead, the data shows that high levels of litigation are concentrated among a handful of insurers, suggesting that poor claims settlement practices may be a more significant factor than industry-wide litigation trends.

Consumers and those concerned about the insurance market should be pushing for more comprehensive regulation of parent and sister companies, stricter oversight of executive compensation packages, and a renewed focus on ensuring that insurance companies prioritize their financial stability and ability to pay claims over short-term profits and executive enrichment.

Policyholders deserve insurance companies that are financially sound and committed to fulfilling their promises by putting money away for disasters rather than providing windfalls for executives. When

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executives receive multimillion-dollar compensation packages while companies struggle to pay claims or maintain solvency, it erodes public trust in the insurance system. It places an unfair burden on consumers because insurers operate as a piggy bank for executives rather than as a safety net for consumers.

The evidence supporting Amy Bach's concerns is substantial and alarming. It is crucial that regulators, lawmakers, and consumer advocates work together to address these issues and create a more balanced and stable insurance market benefiting policyholders. Only through such efforts can we ensure that insurance companies fulfill their primary purpose: providing financial protection and peace of mind to policyholders in times of need.