Insurers should pay for their own mistakes

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Consumer Watchdogs Want Insurers To Rein In Surge Costs
NU Online News Service, April 22, 8:52 a.m. EDT
Consumer watchdogs are urging a closer look at insurers' estimation of post-catastrophe material and labor price increases, citing a study questioning demand surge figures used to set insurance rates.
Citing a March 20 National Underwriter article, Birny Birnbaum, executive director for the Center for Economic Justice, urged the nation's insurance commissioners to review the use of demand surge in premium pricing, saying it unnecessarily adds 20-to-30 percent, if not more, to the cost of insurance.
"Demand surge has been a relatively unexamined component of catastrophe models," Mr. Birnbaum wrote.
The NU article reported on the research of Anna Olsen, a researcher at Colorado University who said she found that the cost associated with rebuilding after catastrophe, and what insurers claim is the subsequent increase in cost of labor and materials as a result of demand, was not proven in her research.
Other economic factors in play before the catastrophe attributed to price increase, she said, and when labor and supplies were abundant there was no measurable increase in materials or labor costs see NU Online, March 20, "Demand Surge Not Driven by Economic Demand").
The letter, signed by Mr. Birnbaum; Bob Hunter, director of insurance, Consumer Federation of America; Amy Bach, executive director of United Policyholders; and Doug Heller, executive director, Consumer Watchdog, asked the regulators to review rate filings for "unjustified

and unreasonable demand surge provisions in the rates."
It also asked the National Association of Insurance Commissioners to support creation of a public catastrophe model to ensure regulators and the public have access to catastrophe modeling information.

In an interview with National Underwriter, Mr. Birnbaum said he received one response from Connecticut's regulator saying he shared Mr. Birnbaum's views.

Mr. Birnbaum said demand surge unnecessarily adds to the cost of insurance and he urged the NAIC to remain on track with plans to develop a public model that would be a benefit to both the public and regulators when making rate decisions.

He added that the assumptions in catastrophe models should be reasonable and not "added on for no reason."

Read the letter UP sent to all insurance commissioners