

MYTHBUSTER

WHAT'S THE ANSWER? INSURANCE REGULATION

California's strong insurance regulatory law has kept rates low.

On April 13, 2005, American International Group withdrew a proposed 39.9 percent rate increase by its National Union subsidiary after the Foundation for Taxpayer and Consumer Rights filed a challenge requesting a public hearing to see if the increase was warranted. This follows the reduction of three separate rate hikes requested by the state's medical malpractice insurers since September 2003. The reductions were based on the state's 1988 insurance reform law, Proposition 103. Proposition 103, among other reforms, created a "prior approval" regulatory system that requires insurers to justify rate hikes and allows the public to challenge excessive rate requests.

Weiss Ratings supports view that regulation is the one thing that will keep rates down.

When Weiss Ratings released its June 2003 study finding that states with caps on noneconomic damage awards saw a greater increase in med mal insurance rates than in states without caps (the opposite of their objective), *Time Magazine* reported, "Weiss speculates that regulation of premium increases made the difference." Jyoti Thottam, "He Sets Your Doctor's Bill; A Chastened Insurer," *Time Magazine*, June 9, 2003.

Specific insurance reforms - How to fix the system:

- There must be a full and thorough investigation of the insurance companies' data to determine if there are errors in the data and over-reserving, and whether their business and investment practices present unacceptable financial risks for insurance consumers and shareholders by failing to take into account cyclical economic downturns.
- There must be annual audits of insurance companies to ascertain whether the companies are engaging in questionable accounting practices.
- Excessive prices being charged by insurers today must be regulated, and the public must be given the opportunity to participate in rate hearings.
- Medical malpractice insurers should use claims history as a rating factor, and must give that factor significant weight. Though counterintuitive, this standard is not always used.
- A state consumer advocate should be set up in the Insurance Commissioner's office to monitor insurance industry waste, inefficiencies and price-gouging.