Americans for Insurance Reform
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Industry Insiders Admit Over and Over Again: Insurance Business Practices and Investment Cycle to Blame for Insurance Liability "Crisis"

Victor Schwartz, General Counsel, American Tort Reform Association:
"Insurance was cheaper in the 1990s because insurance companies knew that they could take a doctor's premium and invest it, and $50,000 would be worth $200,000 five years later when the claim came in," says Victor Schwartz, general counsel to the American Tort Reform Association. "An insurance company today can't do that." (*Honolulu Star Bulletin*, April 20, 2003)

Myron Picoult, Lazard Freeres & Co., past President, Assn. Of Insurance & Financial Analysts:
"To be sure, investors have been disappointed that an industry that began to raise prices in the fall of 1999 has not yet produced meaningful bottom-line results. This underscores the horrendous deficiency in pricing and the underwriting sins of the 1990s, all exacerbated by various Murphy's Law components that always arise at the worst possible moments. This would include not only reserve shortfalls, but also a precipitous decline in the yield curve, in some instances too heavy a reliance on returns from alternative investments and a much tougher -- but needed -- stance from the rating agencies." (*Business Insurance*, February 3, 2003)

National Underwriter:
Standard & Poor's Rating Service in London, recognizing problems created by "historic highs and lows of cyclical underwriting," is calling for the industry to change its underwriting practices. S&P's Christian Dinesen says, "A less cyclical insurance market would be revolutionary for the industry, with such fundamental change promising a more stable underwriting environment." (*National Underwriter Online*, October 29, 2002)

Wall Street Journal:
"[A] price war that began in the early 1990s led insurers to sell malpractice coverage to obstetrician-gynecologists at rates that proved inadequate to cover claims.… Some of these carriers had rushed into malpractice coverage because an accounting practice widely used in the industry made the area seem more profitable in the early 1990s than it really was. A decade of short-sighted price slashing led to industry losses of nearly $3 billion last year." Moreover, "[i]n at least one case, aggressive pricing allegedly crossed the line into fraud." (*Wall Street Journal*, June 24, 2002)

Donald J. Zuk, chief executive of Scpie Holdings Inc.:
"I don't like to hear insurance-company executives say it's the tort system – it's self-inflicted." (*Wall Street Journal*, June 24, 2002)

Robert Hartwig, senior vice president and chief economist at the Insurance Information Institute:
"[I]t is true that the price of insurance is directly related to return on investment. In fact, by law, insurers must factor investment return into their rate calculations when seeking rate changes in many key lines of insurance." (*National Underwriter*, October 14, 2002)

Charles Kolodkin, Gallagher Healthcare Insurance Services:
"The [medical malpractice insurance] market is in chaos…Throughout the 1990s…insurers were…driven by a desire to accumulate large amounts of capital with which to turn into investment income. Regardless of the level of…tort reform, the fact remains that if insurance policies are consistently underpriced, the insurer will lose money." ("Medical Malpractice Trends?" http://www.irmi.com/expert/articles/kolodkin001.asp,September 2001)

American Medical Association:
"[M]any experts have warned that cutthroat competition [in the 1990s] has held rates artificially —and irresponsibly —low. Rates must go up or companies will begin to go under. Too many companies have compromised their financial stability in a quest for increased market share, said Donald J. Zuk, president and CEO of the Southern California Physicians Insurance Exchange, based in Beverly Hills. He likened the situation to drowning swimmers who end up taking down their would-be rescuers. 'Instead of letting the lifeguard save them, raising their rates, they're pushing the lifeguard down further even though it buys them just three more minutes of air,' Zuk said." (*AMANews*, October 18, 1999)

Business Week:
"Even while the industry was blaming its troubles on the tort system, many experts pointed out that its problems were largely self-made. In previous years the industry had slashed prices competitively to the point that it incurred enormous losses. That, rather than excessive jury awards, explained most of the industry's financial difficulties." (*Business Week*, January 12, 1987)

Ad Hoc Insurance Committee of the National Association of Attorneys General:
"The facts do not bear out the allegations of an 'explosion' in litigation or in claim size, nor do they bear out the allegations of a financial disaster suffered by property/casualty insurers today. They finally do not support any correlations between the current crisis in availability and affordability of insurance and such a litigation 'explosion.' Instead, the available data indicate that the causes of, and therefore solutions to, the current crisis lie with the insurance industry itself." (Francis X. Bellotti, Attorney General of Massachusetts, et al., (*Analysis of the Causes of the Current Crisis of Unavailability and Unaffordability of Liability Insurance*, Ad Hoc Insurance Committee of the National Association of Attorneys General, May 1986)

Maurice R. Greenberg, President and CEO of American International Group, Inc.:
"The industry's problems were due to price cuts taken 'to the point of absurdity' in the early

1980s. Had it not been for these cuts, Greenberg said, there would not be ‘all this hullabaloo’ about the tort system.” (*Business Week,* March 31, 1986)

William O. Bailey, former Aetna president:
“The cyclicality that is ingrained in the business will not disappear.” (*Business Week,* March 31, 1986)

Paul Scheel, former U.S. F. & G. president:
“The property-casualty industry always will be cyclical.” (*Business Week,* March 31, 1986)