



CHAPTER 8 INSURANCE



BUSINESS BEATS BASICS

INSURANCE

INTRODUCTION

It's called insurance, but this beat is really about people – and the bad things that they hope won't happen. Insurance is about bills everyone pays with little understanding of what they are actually getting in return. It's about tragedy, families stricken with illness and death, and households and communities struggling to overcome disaster.

The human connection in every insurance story, when properly demonstrated, will always attract a large and attentive audience. What the reader requires is a translator.

A brief history will help: Insurance dates back to ancient Greece and Rome, but the foundation for the modern form was laid out in a coffeehouse in London. Shipping interests met there in the late 1600s and made agreements that if any vessel went down at sea, all of the owners would split the loss. The contracts took a disaster that would ruin any one owner and cut it into bite-sized pills everyone could swallow. Brokers handling the trades were free to earn interest on the money they held, and the modern insurance company was born.

The packages surrounding insurance transactions can be incredibly complex, but at its core, insurance is about the pooling of risk. Actuaries and underwriters are employed to make sure each participant pays its fair share for the risk they bring to the pool. And insurers, traditionally, make their profit off the “float” – the time they have the money in their hands to invest.

Insurance companies and their trade organizations are well-funded and equipped to provide reporters with large amounts of pre-prepared explanations and data on any aspect of risk, whether it's no-fault coverage for auto owners or limits on jury awards. These are helpful starting points, but remember they are written by an industry poised to make money. Often missing is the consumer perspective.

For that reason, insurance reporters need to approach the beat with skepticism and seek very good sources. Retired regulators, company executives, and others who have no active interest in the industry are invaluable. They can help turn insurance documents into plain English, decipher convoluted rate filings, and point out the endgame. Rating analysts, brokers, and hometown insurance agents are also good at providing a reality check.

WHERE TO BEGIN

REGULATION AND REPORTS

Because insurance is the sale of nothing but a promise – words that can be manipulated – it is a highly regulated industry. That means state regulators and their national trade group sit atop mountains of financial filings, audits, market-conduct exams, and other wonderful finds. Their availability gives a reporter no reason to stop at the company press release or the regulatory statement.

Rate filings will identify who or where the rate hikes are highest. They will shed light on questionable practices, such as using consumer credit scores to price policies, or to deny coverage to entire groups of people or communities.

Market-conduct reports bring more insight into bad business practices as well as what regulators are doing about them. And license applications show who is fronting the money behind the newest faceless enterprise.



INSURANCE IS A BUSINESS BUILT ON ADVERSARIAL RELATIONSHIPS

Carriers make more money when they give less of it to policyholders. Sometimes that means eliminating fraud. Sometimes it means just claiming fraud. The creative ways insurers deny and delay claims create a healthy business for trial lawyers who sue them. It also means perpetual employment for the lobbyists hired to rewrite state tort laws to stop the trial lawyers.

Be wary of being used as a pawn in that battle, but use the field to your advantage. And remember that at the center are compelling human stories and public interests. For example, Bloomberg Market's David Evans dug into arcane delayed-benefit funds set up by life insurers and found war widows duped out of the money they were due.

After Hurricane Katrina, the Biloxi Sun Herald's Anita Lee stepped off the local police beat to mine court cases. She searched for broad patterns and found evidence of insurance companies acting in bad faith – and storm victims struggling to rebuild their lives.



MAKE IT LOCAL

I swore I would never write about insurance, but then there were the Florida hurricanes. Houses literally rotted a year later while insurers withheld checks, banking on a “tweak” in state law to get out of paying for storm surge damage.

And there was the painful story of the mother whose daughter wasted away into the grave from anorexia, while her insurance company refused to allow continued psychiatric counseling. Insurers – lots of them nationwide – were using call center “doctors” to dole out limited visits to mental health providers.

Time and again, the rewards for digging into an industry that won’t speak plain English, or wrestling with stubborn numbers in Excel, are some of the most compelling stories you could possibly find.

The trick is to see the human element buried within. When James B. Steele and Donald L. Barlett wrote “Critical Condition,” they put a face on the plight of Americans without health insurance by showing a parade of community dinners for cancer victims and gas-station donation canisters for organ transplants. Steele said they found those telltale stories on Nexis, combining the search terms “medical bills” with “raffle” to troll through community newspapers.

The insurance beat also lies beneath just about any disaster, so be ready to roll after a storm, a tornado, a hurricane, or an earthquake. Who is paying claims? Who is not? Are victims lost in limbo? Are they settling for less? Have scammers moved in to take advantage of the claims checks?

Steele suggests tapping community legal service offices, where uninsured people go if

they’re struggling to pay hospital bills. He also recommends looking at bankruptcy court, the recourse for employees struggling to collect on medical coverage after a local employer shuts down. He adds, “The claims are all public and, in our wondrous age of the Internet, usually online.”

If you are a local reporter, and there is a statewide property insurance rate hike, find the impact in your community. (Hint: If regulators can’t tell you, ask to see the rate filing, and learn how to determine which territories cover your community.)

If you cover the statehouse, find stories by asking “Why?” on any bill dealing with insurance. Why should a certain medical treatment be exempted from routine coverage?

Insurance stories are even hidden in the company press release and the agency statement. A career can almost be made just by “truth testing” their claims.

And remember the most critical questions:

- Who will be harmed?
- Who will profit?



RESOURCES

The good news about the insurance beat is that there are many sources of information among regulators, industry groups, consumer groups, ratings agencies, researchers, and trade publications.

You don't have to decipher rate filings or market-conduct exams alone. However, be aware of the biases that each party might bring to bear on an issue, and seek multiple interpretations on contentious topics. Here are some of those sources, including contact information for many:



REGULATORY

National Council of Insurance Legislators

ncoil.org

A nonprofit policy group through which state legislators on insurance-related committees draft model legislation and take positions on national policy.

National Association of Insurance Commissioners (NAIC)

content.naic.org

A nonprofit organization of state insurance regulators. Acts as a national repository of state insurance financial filings, publishes detailed industry statistics, and – with input from those regulated – drafts model laws and regulations. State regulators and staff constitute a myriad of task forces and work groups with NAIC staff assistance, marked by quarterly meetings and monthly dial-in “chorus calls.”

Public access sites provide basic insurance financial status and complaint reports and pay-for-view detailed financial reports. Media may have access to documents, reports, and chorus calls. Some NAIC meetings remain closed.

Center for Insurance Policy and Research

content.naic.org/research

A Washington-based policy arm of the NAIC that provides comment on federal insurance regulatory proposals.

InsData

content.naic.org/industry/insdata

NAIC's pay-for-view access to detailed annual and quarterly financial filings of state-regulated insurers. Prices range from \$10 to \$30 per document, but the NAIC media affairs office will sometimes waive charges. The first few may be free with a new registration.

State regulators

Consult the NAIC jurisdiction map. Common online and/or electronic services to seek out: rate filings, policy and exposure data, financial and market-conduct exams, consumer complaints, policy form changes, and rate-comparison charts.

RATINGS AGENCIES

AM Best

[ambest.com](https://www.ambest.com)

Provides easy access to look up the financial rating of insurers, get basic information on the company, and most importantly, find the rating analyst who knows the inside scoop.

Fitch Ratings

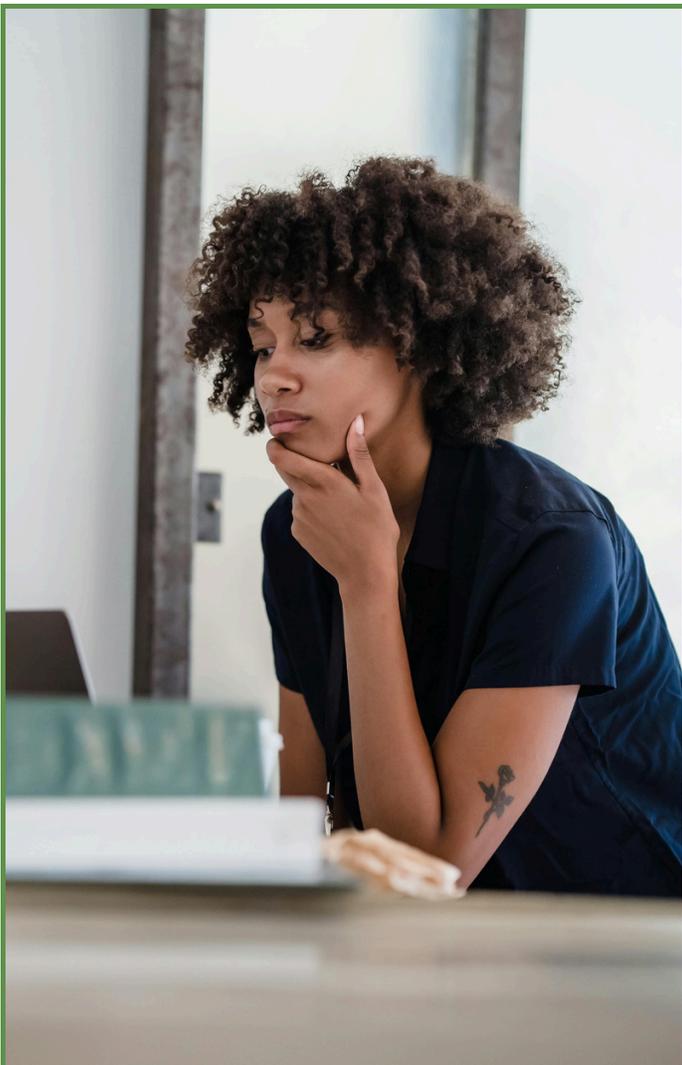
[fitchratings.com](https://www.fitchratings.com)

Same services as AM Best.

Standard & Poor's

[spglobal.com/ratings](https://www.spglobal.com/ratings)

The third of the big three rating agencies.



AGENTS

National Association of Professional Insurance Agents

[pianational.org](https://www.pianational.org)

Association of independent insurance agents based in Virginia.

Independent Insurance Agents & Brokers of America

[independentagent.com](https://www.independentagent.com)

National alliance of 300,000 agents and brokers selling insurance through more than one company.

CONSUMER

Center for Economic Justice

[cej-online.org](https://www.cej-online.org)

A Texas-based organization focused on serving minority and low-income consumers on issues of insurance, credit, utilities, and other economic products.

Consumer Federation of America

[consumerfed.org](https://www.consumerfed.org)

An association of nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.

Consumer Watchdog

[consumerwatchdog.org](https://www.consumerwatchdog.org)

A California-based consumer-protection organization formed in 1985 by Proposition 103 author Harvey Rosenfield. Specializes in medical insurance, managed care, and malpractice issues.

United Policyholders

[uphelp.org](https://www.uphelp.org)

A San Francisco-based consumer group whose mission is to be a trustworthy and useful information resource and a respected voice for consumers of all types of insurance across the United States.

INDUSTRY GROUPS

American Academy of Actuaries

actuary.org

Represents and unites U.S. actuaries from all practice areas.

America's Health Insurance Plans

AHIP.org

National trade association representing the health insurance industry.

American Property Casualty Insurance Association

apci.org

National trade organization for property-casualty insurance companies, with more than 300 member companies. Based in Washington D.C.

Insurance Information Institute (III)

iii.org

Insurance industry-funded organization that produces white papers on issues, publications, as well as a media guide. The III also privately drafts talking points and strategy plans for the industry.

Insurance Institute for Highway Safety

iihs.org

Virginia-based research organization funded by auto insurance companies focused on reducing losses in lives and insured property from crashes on national highways. Its affiliate, the Highway Loss Data Institute, conducts research using access to industry data.

Insurance Institute for Business and Home Safety

ibhs.org

Florida-based, research-and-advocacy organization funded by the insurance industry to reduce natural disaster and windstorm losses to homes.

Insurance Services Office (ISO)

verisk.com/insurance

Trade bureau through which insurance companies share claims and loss data, which ISO uses to create actuarial-rating tables for use in rate filings, policy forms, and underwriting guidelines. Also a source of statistics, research and analysis about the insurance industry.

National Association of Mutual Insurance Companies

namic.org

Based in Indiana, represents policyholder-owned mutuals such as State Farm.

National Insurance Crime Bureau

nicb.org

Trade bureau through which insurance companies file and investigate suspected cases of insurance fraud. Their membership includes nearly 1,200 property-casualty insurers, vehicle rental companies, auto auctions, vehicle finance companies, self-insured organizations and strategic partners.

Risk and Insurance Management Society

rims.org

Some of the resources it provides include daily risk, insurance and benefits news, searchable databases, legislative updates, professional advancement, student center, and public record searches for risk managers.

Reinsurance Association of America

reinsurance.org

Trade and advocacy organization for reinsurers and brokers that underwrite the insurance risks in the United States. International membership includes Munich Re of Germany and RenaissanceRe of Bermuda.

CHALLENGES AND PITFALLS

Insurance companies don't speak plain English. Neither do regulators, actuaries or even lawmakers for that matter. The challenge to getting a good insurance story into print, and an even bigger obstacle to getting it onto the air, is translating it into common words.

Think about what you see and hear as you report, and ask if it makes sense. This process of translating and challenging will help you dig beneath the Astroturf to find real dirt and real stories.

Good sources will help you work your way through the labyrinth. Tap local insurance agents, state consumer advocates, and organizations, such as the Consumer Federation of America. Some states have a consumer advocate. Read others' works on the same subjects and note whom they spoke to. People who work in the background – legislative aides and regulatory analysts – can be a big help in getting started, even if they won't be quoted.

Don't be afraid to return to sources again and again until you are sure you understand what they are saying; and take a stab at writing parts of the story early. Early drafts will highlight holes in your understanding. It also will show where what you know adds up to something more – a larger pattern or a deeper impact.

Bring your editor on board early, too. They often face the same high learning curve that comes with insurance, and it will save a lot of struggle and pain if your editor understands the issues you're working with.

Equally valuable is a read by an editor or co-worker who knows nothing about insurance. If they are confused, your readers will be too.

TRADE AND BUSINESS PUBLICATIONS

Business Insurance

businessinsurance.com

A singular, authoritative news and information source for executives focused upon risk management, with information for risk managers, insurers, brokers and other providers of insurance products and services.

Insurance Journal

insurancejournal.com

Industry trade journal providing daily and weekly email feeds by topic and region of interest.

Insurance Business

insurancebusinessmag.com

Daily news and insurance business intelligence tailored for insurance professionals.

National Underwriter

nationalunderwriter.com

Owned by ALM Media, offers separate email newsletters and RSS feeds for life and health insurance and for property and casualty lines.

TERMS TO KNOW

A good handle on the terms thrown around is a necessity to penetrate the fog. The Insurance Information Institute has a very [good glossary](#) for many of the most mystifying words. Scrolling through it will give you insight into how insurers operate and maybe a few story ideas. Here are some tips on the most basic concepts:

Risk

The insurance industry has many different ways of talking about risk, but it all boils down to the possibility a check will have to be written to a policyholder.

A long-tailed risk is a claim that might not come due until years after the policy was issued. Medical malpractice, which usually entails lengthy litigation, is a long-tail risk. Life insurance has an even longer tail. Home and auto policies, on the other hand, are short-tail risks. Long-tail policies allow insurers to make more money on investments. But they also require large reserves for future claims and therefore conservative investment practices.

Reserves

At the time the premium is paid, insurers need to set money aside to pay potential claims. They'll need to beef up those reserves if there is a big event, such as a hurricane. This also is where there is the most wiggle room and the opportunity for danger – if a carrier understates its risk or dips into reserves (through a practice called releases) to prop up profits. More than one seemingly healthy insurer has collapsed overnight by understating reserves.

Profit and loss

Nothing will start a debate faster than what is and what isn't profit. When insurers pay out more in claims than they collect in premiums, that is called an underwriting loss.

That doesn't mean the insurer didn't make a profit. Insurers traditionally have a small underwriting loss and instead make their profit off invested premiums and reserves. Even losses are open to interpretation, as insurers commonly report their anticipated claims (including IBNR – claims they think may have been Incurred But are Not yet Reported), not their total payments.

Policyholder surplus

This is the amount of money, over and above all obligations, that an insurer is required to keep for unexpected expenses and losses. State regulators have firm rules about the surplus capital required before a carrier gets a license, and sometimes a different amount to stay in business. U.S. regulators also require insurers to use a complex formula to determine how much capital they need to cover the risks they insure, as well as the ones in their investments.

This number is their Risk-Based Capital (RBC) requirement. Generally, property insurers must have twice their RBC (an RBC score of 200 stands for 200 percent), or they trigger regulatory scrutiny. A low enough RBC will require regulators to shut down the carrier. As important as the RBC is, it is not publicized. Hunt for it on an insurer's annual financial statement.

Probable Maximum Loss (PML)

When financial rating firms grade an insurer, or reinsurers sell disaster protection to a property insurer, they want to know its PML. It is a number generated by computer models that estimates the losses from events such as earthquakes, hurricanes, and even epidemics. Most often, the focus is on the PML associated with a specific frequency of occurrence. This can be expressed as a percent chance, such as a 1 percent chance. More often, it is reported in terms of the expected frequency of a loss that large, as in a 1-in-100-year hurricane, or 1-in-250-year earthquake. That is NOT a 100-year hurricane, since a single company can experience a 100-year loss even in a small storm if it strikes the right place. PML is cumulative, so a 1 percent chance over five years becomes a 5 percent chance, and so on.

This chapter is based on the "Beats Basics" Insurance section, originally published in 2011 and written by Paige St. John when she was at the Sarasota Herald-Tribune.