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‘Storm of Money’ Leaves False Impressions by Omitting Facts

By Charles Chamness

The series of articles titled “Storm of Money” in the Post and Courier on the topic of property insurance in South Carolina unfortunately left its readers with a number of false impressions. Among these is the feeling that homeowners in the state are “victims” of forces that are stacked against them.

For instance, the June 21 article recounted how lawmakers have enabled insurance companies “to increase rates (up to 7 percent) without prior approval or public hearings.” What it neglected to point out was the still existent authority of state regulators to repeal any such rate hike if regulators subsequently find the increase is not actuarially justified.

The article also claimed that insurance companies “bury” factors such as the use of credit-based insurance scores and education in rate filings with the state, and cites unnamed critics who complain that use of these factors “unfairly affect the poor” without providing any evidence to support the assertion. In fact, the use of factors such as credit-based insurance scores has allowed many consumers to pay less for insurance than they otherwise would. Consequently, low-risk consumers are less likely to suffer the burden of subsidizing high risk insurance consumers. Consumers are therefore treated more fairly when it comes to what they pay for their insurance coverage.

Another misimpression left by the article is that a state-run website where homeowners could shop for better rates would actually live up to its promise. It holds up the Texas-managed site as a model, but upon closer inspection shows itself to come up short of reliability and accuracy. For instance, a visitor to the Texas website today is greeted with the news of forthcoming enhancements for auto insurance – in 2008.

And what should readers of the article make of the reference to “hundreds of millions of dollars” in insurance revenues “pocketed” in 2007? Well, insurance companies don’t “pocket” money from their policyholders. What they do with premiums is put them into reserve funds to pay future claims. That’s what the policyholder expects an insurance company to do (pay claims) and that’s what state regulators require it to do (have money available for future losses). A major hurricane striking the South Carolina coast will cause billions of dollars in damage; policyholders surely would want their insurers to have collected enough premium in the years before the storm to pay the resulting claims.

Lastly, the article left readers with the impression that those parts of the state government that exist to regulate insurance and protect consumers have been cut for what must be sinister purposes, since no reason was cited. Yet since the economic collapse of 2007-2008, all parts of state government have been forced to function with reduced budgets and staff.

In short, property insurance consumers in South Carolina are well served by the freedom to choose insurance from among 120 competing companies. South Carolinians can play a role to ensure they continue to get the right kind and amount of homeowners coverage at the right price by taking advantage of that competition, and by asking questions of their insurers and agents.

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