

CAPS FAILED TO LOWER MALPRACTICE PREMIUMS BUT INSURANCE REFORM WORKED

CITIZENS FOR INSURANCE INDUSTRY REFORM

In 1976, California passed a law capping damages on non-economic claims arising from medical error at \$250,000.00. Notwithstanding the fact that patients lost their rights to recover from medical mistake and that many were denied access to the courts, insurance premiums rose approximately 450% from 1976 to 1988. Frustrated that limiting patients' recoveries from mistakes did not work, in 1988 California adopted Proposition 103 which imposed a tight regulatory system on casualty insurance companies. Since the insurance reform was passed in 1988, California malpractice premiums were rolled back nearly twenty 20% and have not risen since.

Citizens for Insurance Industry Reform is made up workers, consumers, business people, patients, and legal professionals who recognize that insurance reform is desperately needed in this Commonwealth. There is no monitoring of the insurance industry in Pennsylvania. The absence of oversight has resulted in insurers imposing unchecked rate hikes which has threatened the ability of businesses and professionals, homeowners or motorists to function.

The lack of insurance oversight contributed significantly to the mismanagement, financial collapse, and bankruptcy of many medical malpractice insurance carriers over the last four years, including PIC, PIE, PHICO, and Reliance. During years of excellent insurer profits, these and other insurance companies engaged in fierce competition in Pennsylvania for premium dollars from medical professionals and hospitals to invest for maximum return. Many insurers engaged in underpricing and insured very poor risks, such as repeat offenders of medical malpractice, just to get premium dollars to invest. Mismanagement also turned to crime. The president of PIE was convicted for stealing \$6.8 million of premiums and purchasing a pig farm for a family member.

And just as occurred during the economic cycles in the mid-1970s and mid-1980s, the insurance carriers lost

investment income when interest rates dropped, the stock market plummeted and/or cumulative price cuts made profits become unbearably low. Pennsylvania's insurance industry in turn dramatically increased premiums and reduced coverage, prompting a "liability insurance crisis." Instead of owning up to its mismanagement and failure to provide for adequate reserves, the insurance industry blamed the legal community for the insurance premium price gouging of professionals, businesses, and consumers.

Pennsylvania needs insurance reform to better regulate the mismanaged underwriting and the cyclical nature of the insurance business. Instead of taking away more rights of consumers, patients, and workers which will not make insurance more affordable, the Commonwealth needs to enact substantive insurance reforms. Pennsylvania should adopt the reforms that California imposed such as requiring insurers to disclose income, reserves, and losses particularly when they seek rate increases, take a more active part in controlling insurance rates, and creating an insurance advocate. **Don't let the insurance industry eliminate your rights.**

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