

Insurance premiums rise on sour profits, market returns

Kathy Chu and Sandra Block, USA TODAY

Home, car and life insurance prices are climbing as insurers grapple with lower investment returns and profits.

The cost of a typical auto insurance policy will rise 4% to \$875 this year, on top of a 3% increase last year, according to the Insurance Information Institute, a trade group. Consumers also will pay more for homeowners insurance: The average policy will jump 3% to \$841. And term life insurance rates are rising after several years of declines.

The price increases come as consumers struggle — the unemployment rate has reached 8.5%, and household wealth has plunged with investment

portfolios and home prices.

In this economy, "Anything that costs more is difficult for consumers," says J. Robert Hunter, director of insurance for the Consumer Federation of America.

The industry's profits come from insurance policies and investment returns, says Terri Vaughan, chief executive of the National Association of Insurance Commissioners. That's why, "If your expectations for future investment income are lower, that's going to affect premiums."

Insurers collect premiums from consumers and invest the majority in bonds, the rest in stocks. Their portfolios have been under pressure amid volatile stock and bond returns.

For instance, yields on ultra-safe Treasury securities — in high demand amid the economic turmoil — plunged in 2008. Meanwhile, the Dow Jones industrial average is down 43% from its all-time high of 14,165 on Oct. 9, 2007. Treasury securities and stocks have regained some ground recently, however.

As the economy weakens, insurance rates could climb further. Insurers "cannot assume that interest rates will be much higher and stock returns much better in the foreseeable future," says Robert Hartwig, president of the Insurance Information Institute.

In the life insurance industry, higher reserve requirements and increased capital costs are reversing a more than decade-long trend of falling term life prices, says Byron Udell, chief executive of AccuQuote, an online insurance broker.

Udell predicts average term life rates will be 5% to 10% higher at this time next year. Banner Life Insurance raised rates this year, he says. Prudential and ING have notified AccuQuote they'll raise rates in coming weeks.

The rate increases — typically 2% to 6% — are significant because these three insurers are major players that frequently offer lower premiums than their competitors, Udell says.

U.S. lawmakers seek federal rules for insurance firms

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Reuters

WASHINGTON - U.S. lawmakers introduced legislation on Thursday favored by much of the industry that would set up a federal regulator for insurance companies, which are now largely policed by the states.

The bill, introduced by Rep. Melissa Bean, an Illinois Democrat, and Rep. Ed Royce, a California Republican, would create an option federal charter the industry says could

smooth the choppy state-by-state regulation they are subject to now.

Similar attempts have failed to pass Congress in the past, in part due to opposition from states and consumer groups, who say such a move would lead to higher rates and weaken consumer protection.

Previously proposed legislation would have allowed insurance companies to set their own rates if they were federally chartered.

The lawmakers hope the spotlight put on American International Group Inc, recipient of up to \$180 billion in bailout funds, may aid their effort.

The American Council of Life Insurers said it "looks forward to seeing a strong, streamlined insurance regulatory system emerge at the end."

The group represents companies, including Hartford Financial Services Group Inc, Assurant Inc and Lincoln National Corp.

Companies say having one regulator will help them better compete overseas and develop savvier products. Insurance companies are now regulated by states, most of which set insurance rates.

The American Insurance Association, a group of 350 property-casualty insurers, including Travelers Cos Inc and Chubb Corp and Ace Ltd, has also endorsed the creation of a federal regulator to oversee the industry.

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