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**110 William Street
New York, NY 10038
(212) 346-5500**

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August 15, 2007

Mr. Ronald Henkoff

Editor

Bloomberg Markets
731 Lexington Avenue
Floor 4E
New York, NY 10022

Dear Mr. Henkoff,

I am writing to express my serious concern about the September 2007 *Bloomberg Markets* cover story titled *The Insurance Hoax*. The article is based on a faulty premise which the authors try to substantiate with the use of selective or erroneous facts. Given my organization's long history of credible cooperation with Bloomberg journalists, the malicious nature of this story is shocking. On behalf of the Insurance Information Institute member companies mentioned in the article, I would like to arrange an in-person meeting between you, a representative from each company and myself. In addition to a meeting with you, we are seeking correction, retraction and an apology.

Regarding the recent article authored by David Dietz and Darrell Preston, I find it baffling that a sophisticated business-oriented magazine that is part of one of the most respected names in business information services chose to publish such a biased, inaccurate and intellectually shabby story. This article seriously calls into question Bloomberg's reputation for objective, fact-based reporting. Also, because virtually identical storylines have appeared previously in several other media outlets and at least one book, the fact that your article is presented as original journalism and research by your reporters raises questions about journalistic standards and editorial oversight at Bloomberg.

The data, research and even the originality of the Dietz and Preston article are highly suspect. As editor of *Bloomberg Markets* you should be seriously concerned that in a number of instances detailed below, your "facts," calculations, assertions, and consequently your conclusions, are entirely wrong. But the most serious problem with the article is the misinformation it spreads.

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The article leaves our customers with the false impression that insurers routinely seek to avoid their obligations to them at their time of greatest need. Such untruths, utterly unsupported by the facts, are not only a disservice to the public and your readership but are an insult to the millions of insurance industry employees who work hard every day to help people recover from disaster whenever and wherever it occurs.

Below I have highlighted some of the key problems with your story, beginning with the title.

Anecdote and Unsubstantiated Assertions Offered as Fact

The very title of your story *The Insurance Hoax*, sets the tone for the entire piece, calling into question the very premise of insurance and portraying it as an elaborate scheme designed to deceive and defraud. Never mentioned in your story is the fact that property/casualty insurers annually pay out hundreds of billions of dollars on tens of millions of claims. Hundreds of millions of claims and trillions of dollars have been paid fairly and expeditiously during the 15 or so years spanned by your article.

Your article wastes little time in making the quantum leap from anecdote to presumed industry practice. Indeed the article's two lead paragraphs include a discussion of precisely one claimant, the Tunnells, which by the third paragraph morphs into the entirely unsubstantiated assertion that insurers "...*routinely pay less than what policies promise.*" The error of this flat out false statement is compounded in the very next (and also incorrect) sentence, "*Insurers often pay 30-60 percent of the cost of rebuilding a damaged home—even when carriers assure homeowners they're fully covered...*" This type of leap from anecdote to overgeneralization to misrepresentation of facts occurs several times throughout the piece.

Selective Use and Omission of Data

Your article on many occasions makes selective use of data or omits data to support its seemingly pre-determined conclusions. For example, your article on several occasions compares financial figures such as 1994 or 1996 with 2006 and conveniently omits any reference to the three record years of catastrophe losses in between: 2001, 2004 and 2005 (see p. 37). Consequently, your piece fails to mention the \$81 billion in hurricane losses insurers paid to 5.5 million policyholders through the record hurricane seasons of 2004 and 2005 or the extraordinary performance of insurers in the wake of the 9/11 terrorist attacks, which produced \$32 billion in insured losses.

While some focus on 2006 is reasonable given that it is the most recent year for which data are available, insurance is a highly volatile and cyclical business. This means that a proper analysis requires a detailed examination of data over an extended period of time. Cherry picking a year such as 2006, one which represents a cyclical peak in the industry's performance, while ignoring years like 2001, 2004 and 2005 is, at best, further evidence of deliberate bias in your article and, at worst, represents a profound lack of understanding about an industry that the authors purport to understand intimately. Blinded by bias or ignorance, the authors seem to miss a very obvious point: that it is imperative for insurers to earn healthy profits in years like 2006 in order to accumulate the financial resources necessary to pay losses in years like 2001, 2004 and 2005.

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Factual Errors

Bloomberg Markets' blatant bias does your readers an injustice by providing them with inaccurate information about one of the most world's most important industries. The factual errors you make in the story reflect badly on your magazine and the Bloomberg organization as a whole. Below are several examples:

- Page 38: Apparently arithmetic is not the authors' strong suit. First, you state that in 2006, carriers paid out 55 percent of the \$435.8 billion in premiums collected, attributing those figures to data obtained from the Insurance Information Institute. The correct ratio is 65 percent. You will see at the link below the \$435.8 billion in premiums that the authors refer to on the first line in the table at the end of the write-up. The second line shows "Incurred Losses" of \$283.7 billion. Dividing \$283.7 by \$435.8 is 65.1 percent, not 55 percent as the authors assert. If general expenses of \$117.5 billion are included, then that ratio rises to 92 percent. This gross error means that one of your principal allegations—that "claims payouts across the entire property-casualty insurance industry have decreased in the past decade"—is entirely wrong and is merely the product of your own arithmetic errors. The authors go on to compare the 2006 figure to a 64 percent payout ratio in 1996. The correct figures actually indicate that the claims payout ratio increased in 2006 relative to 1996—precisely the opposite conclusion to that reached by the authors.

LINK: <http://www.iii.org/media/industry/financials/2006yearend/>

- Page 38: Reinforcing the observation that arithmetic skills were in short supply when this piece was written and (presumably) edited and fact checked is the statement that, "*The industry increased profits by an annual average of 46 percent since 1994.*" This statement, too, is factually incorrect. Industry net income after taxes (profit) in 1994 was \$10.87 billion. In 2006 net income totaled \$63.695 billion (see link above). The compound average annual growth rate in profits over this period is 15.9 percent—barely one-third the figure asserted by Bloomberg. It is a mystery to me how the authors could be so far off. Were the 46 percent growth rate to be true, profits in 2006 would have exceeded \$1 trillion, given initial 1994 profits of \$10.87 billion. Considering that total industry premiums were \$435.8 billion that year, profits of that magnitude are obviously impossible to achieve. Clearly the assertion of a 46 percent average annual growth in profits over a 12-year period should have set off alarm bells with your editors. Working backwards from the \$63.695 billion actual net income figure, a 46 percent average annual growth rate implies that profits in 1994 were just \$679 (rather than the actual amount of \$10.87 billion). Apparently nobody at Bloomberg seemed to believe that checking the authors' calculations was worth their time, even though these calculations form the foundation of the arguments made in the story.

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- Page 43: You incorrectly claim that Hurricane Katrina killed 16,000 people. That number is wildly inaccurate. The actual number is 1,833 deaths, 89 percent fewer than claimed by Bloomberg (see <http://www.wunderground.com/hurricane/at2005.asp>).
- Page 50: You incorrectly insinuate that states have no prosecutorial power over insurance companies and also incorrectly state that the federal government has no oversight authority, leaving readers with the false impression that insurers operate in a regulatory vacuum and are free to do whatsoever they wish. The reality is that property/casualty insurers are among the most stringently regulated industries in the United States. Individual states do in fact have prosecutorial power over insurers, and insurance departments can levy fines and administrative sanctions. Insurers are also subject to federal oversight in a wide variety of areas, including antitrust.
- Page 52: Your entire article is dedicated to property/casualty insurance issues, but you then cite \$98 million in lobbying expenditures in 2006. This figure includes the lobbying activities of health insurers and life insurers, both of which are much larger than the property/casualty segment. Your article therefore provides erroneous and exaggerated information since it inaccurately includes lobbying activities unrelated to those that are the subject of your article.
- Page 52: Your assertion that the federal flood insurance program “...helped the insurance industry increase profits by 25 percent in 2005” is flat out wrong. The performance of the private insurance industry is (and has always been) entirely independent of the federal flood program’s finances and exposure. Whether the flood program pays \$0 in claims or \$100 billion has no impact on insurers. Since 1968 the National Flood Insurance Program (NFIP) has offered subsidized flood insurance coverage to people living in flood-prone areas. This is not a market insurers have ever participated in and consequently insurers have never charged a dime in premium for flood-related losses. How the authors manage to attribute a 25 percent increase in profits to an independent federal insurance program for which private insurers collect no premium is beyond my understanding, other than the likelihood that the authors simply do not understand how the federal flood program operates.

The gross errors detailed above are very damaging to the story’s premise that insurers routinely pay just a fraction of a claim’s true value. Not only is the allegation wrong, but the facts that allegedly prove it are wrong. Bloomberg, quite frankly, should be embarrassed to have its otherwise good name and reputation associated with this shoddy piece of journalism. It is clear that the only “hoax” perpetrated here is the repeated misrepresentation of truth throughout your article, most which is based on unsubstantiated assertions, anecdote and error-strewn calculations.

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We believe that the *Bloomberg Markets* article's blanket indictment of an entire industry is fatally flawed and fraught with factual errors that do a disservice to your readers and the reputation of the Bloomberg organization. It is appropriate to arrange an in-person meeting between you, Insurance Information Institute member companies mentioned in the article and myself in the very near future. We also would like you to refer our concerns to the magazine's ombudsman or public editor. If you do not have one, we should jointly explore seeking an analysis by an unbiased third party. Please contact me as soon as possible so we can make arrangements with our members to meet with you and your staff for a frank, honest and constructive discussion of the unsupported allegations made in your magazine.

If you have any questions or comments, please feel free to call me at 212-346-5520 or to email me at bobh@iii.org.

Sincerely,

Robert P. Hartwig, Ph.D., CPCU
President