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Testimony of Douglas Heller
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In Support of SB 174
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Good afternoon. I am Doug Heller, Director of Insurance for Consumer Federation of America (CFA). CFA has conducted research regarding the insurance industry for more than 30 years. We appreciate the opportunity to provide our research and analysis in support of SB-174 and the application of Oregon's UDAP laws to the insurance industry.

Insurance is an essential tool for providing financial security, economic opportunity, and individual and community resilience. It is also, in many instances required by state law or the banks that provide loans to home and business owners. Whenever there is a mandatory purchase, there is also a special and increased obligation to ensure that the product is priced appropriately and provided in a manner that is fair. One of the ways, though certainly not the only test, that CFA assesses the fairness and value of insurance markets is by reviewing the loss ratios and profits of the insurance industry from state to state. When we see low loss ratios – that is, a relatively small portion of customers' premium dollars being used to pay claims, which is a central purpose of insurance – or when we see higher than average profits, we pay attention. These are markers of a market in need of stronger consumer protections. It is not that we think insurers must be not-for-profit, but when there are states in which we see notably higher profits, it is usually a sign that there's a need for some statutory and regulatory strengthening.

Oregon, it turns out, is one of those states.

Using industry data supplied to the National Association of Insurance Commissioners as well as S&P Global data published by the trade publication *Property Insurance Report*, it is clear that the insurance industry is paying out less than average per premium dollar collected in Oregon and insurers are taking in higher-than-average profits in the state as well.

So, for example, in 2022 Oregon insurers incurred about 62 cents in homeowners insurance claims for every dollar in premium collected, while nationally, insurers paid 71 cents on the dollar. This is the loss ratio I mentioned. Lower loss ratios, like we saw in Oregon in 2022, usually mean higher profits. Then, between 2022 and 2023 insurers in Oregon increased their homeowners premiums by 10.8%, in line with national increases. But nationally claims payouts also rose and the loss ratio remained almost unchanged, dropping from a 70.9% loss ratio in '22 to a 70.6% loss ratio in '23. In Oregon, the already low 2022 loss ratio fell by as much as the premium increased, so in 2023 Oregon insurers ended up incurring less than 52 cents in claims for every dollar collected from policyholders. That means they got to keep almost 19% more premium in Oregon than was typical across the country.

Those low loss payments led to high profits in Oregon over the most recent few years for which data are available. In fact, the return on net worth for homeowners insurance companies in Oregon was about 10 times the national return in 2021 and 2022. Of course, I don't want to ignore the fact that the industry sustained huge losses in the wake of the brutal 2020 wildfire season in the state. But that was the risk they took on, and they have been punishing Oregon consumers for it ever since.

Things are even more stark when you look at other insurance lines beyond just property.

- The 10-year average Return on Net Worth for Personal Auto Insurance in Oregon is almost twice the national average.
- For the commercial auto insurance that truckers and other businesses rely on, profits in Oregon have been about 3 times the national average over the past decade.
- Insurance profits on the coverage sold to small businesses and other commercial ventures in the state have been almost double the national rate of return since 2013
- Even when you include the wildfire losses from 2020, insurance industry profits across all property and casualty lines in Oregon have been 23% higher than the industry earns nationwide over the past decade.
- Just to put a number on this, in 2022 alone, even before you count the investment income insurers made on the surplus they hold, insurance companies pocketed more than $740 million in net profit from Oregon policyholders.

The data reveal that the insurance industry in Oregon has the markers that tell us that consumer protections need more attention from the legislature. When companies are paying out below average loss ratios and reporting these much higher than average profits across the industry, it is a sign that insurers have taken advantage of a lack of accountability. It indicates that they have been allowed to squeeze more premium out of consumers than their claims payments justify, and that they have been allowed to unfairly squeeze consumers out of the fair claims payments that would be expected given the level of premium collected. It is a sign that new tools are needed to curb the excess of the industry. SB 174 provides a tool of accountability that will help protect consumers in the insurance marketplace and improve the quality and value of this critical financial product.