



2002 - 2008 California Homeowner Insurance Justified Complaint Ratio Analysis

Each year, the California Department of Insurance researches all requests for assistance it receives about homeowner policies during the course of that year. From these reviews, the CDI determines whether or not an insurer complied with state law and state regulations regarding insurance policy pricing, underwriting and claim service. If the Department must take action, then the inquiry is redefined as a “justified complaint.”

As all insurance companies vary in the number of policies, the Department creates a ratio of complaints to policies, in this case, 100,000. The formula is used to create a level measure of company performance whether a company is small, medium or large. The formula for determining the complaint ratio is:

$$\frac{100,000}{\# \text{ of Policies}} * \text{Justified Complaints} = \text{Complaint Ratio}$$

For example, let’s take Company A with 300,000 policies and 15 justified complaints, and Company B with 200,000 policies and 10 complaints. Initially, it might appear that Company B, with fewer complaints, has performed better than Company A. Based on the formula, however, both Company A and Company B are equal in terms of the justified complaint ratio.

The following is an IINC analysis of California Department of Insurance consumer complaint studies from 2002 through 2007. Each study consists of the top 50 homeowner insurers licensed to conduct business in California. It includes only complaints that have been closed in each given year.

Year	Complaints	Total Policies	Complaint Ratio	% of Complaints to Total Policies
2002	315	7,692,714	4.1	0.0041
2003	540	7,926,356	6.8	0.0068
2004	340	7,955,055	4.3	0.0043
2005	278	8,067,057	3.4	0.0034
2006	189	9,084,818	2.1	0.0021
2007	162	8,553,953	1.9	0.0019
2008	145	8,663,603	1.7	0.0017

Between 2002 and 2006, the number of homeowner policies increased steadily statewide, peaking in 2006 at nearly 9.1 million. It decreased slightly in 2007 to about 8.55 million and rebounded slightly in 2008 8.66 million.

While the number of policies increased steadily during the sample period, the number of justified consumer complaints has decreased. 2003 saw the greatest number of justified complaints, with 540 out of more than 7.9 million policies (a complaint ratio of 6.8) dropping to a low in 2008 of 145 justified complaints out of nearly 8.7 million policies (a complaint ratio of 1.67).

To make an analogy, if one were to fill the Rose Bowl to capacity (100,000 seats), 1.67 of those seated in the stadium would have had a justified complaint in 2008.

iinC.

Insurance Information Network
of California®