



March 16, 2009
Times Union

To the editor:

I am writing in response to the March 10 article "Budget fight makes strange bedfellows," which identifies a disturbing pattern of misunderstanding by the Governor's Administration. The New York State Budget Division spokesperson indicated in this article, which concerned the enormous proposed increases in assessments on New York insurance companies, that insurers could tap their reserves to pay for these assessments. The spokesperson's statement unfortunately echoes one made by Governor Paterson himself earlier this year. These statements portray the Administration's lack of knowledge of insurance companies' financial operations. Insurance company reserves are defined as an insurance company's best estimate of what it will pay for policyholder claims. Meaning, companies must strictly set aside reserves for future claim payments to insurance consumers. Reserves are not discretionary funds and cannot be used for anything other than claims.

Those misusing the word reserves may have been thinking of net income when they made these statements. Net income is the money insurance companies may have in surplus. Regarding current net income, a recent independent economic study reported the property/casualty industry net income is currently down 68 percent, so there is little to no net income to tap during these financially difficult times. Furthermore, many New York-based insurance companies are mutuals and the net income of these companies does not belong to the company, and is in fact policyholder surplus. The policyholders own any net income made by the company.

I believe this lack of understanding has contributed to misguided budget proposals, which more than double insurance assessments from the 2008-09 rate of \$340 million initially enacted last April to \$720 million proposed for 2009-10. These proposals are ill advised and destructive to the insurance industry, which is an important contributor to New York jobs and the overall state economy.

Sincerely,

Ellen Melchionni, President
New York Insurance Association, Inc.