

More On Insurers' Float - An Illustration

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My March 24, 2015, post discussed the “[true value](#)” of a [property/casualty insurer's float](#), which includes not only the return the insurer makes on the money borrowed from its policyholders to pay future claims (*i.e.*, total premiums), but also the avoided cost of borrowing that money (*i.e.*, the “use value”). A few years ago I illustrated this point to the Minnesota legislature by compiling the following data on several insurers during a 15-year period, showing that the true value of the insurers’ float during that period averaged 24.1 percent per year – substantially higher than their average reported return on investment of 13.8 percent per year, and far higher than the single-digit statutory rate of prejudgment interest in a number of states that promotes insurer delay.

For those who may wish to seek legislative reform on policyholder remedies, this type of data can be readily replicated from publicly available sources.

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