

YOU & the LAW

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Insurance companies profit from more than premiums

Most people believe insurance companies make their money by collecting more in premiums than they pay out in claims. But their real profit comes from investing your premium dollars.

When you buy an auto liability policy, the insurer sets aside some of your premiums to pay damage claims that its customers may file in the future. The rest pays salaries, overhead and other insurance company expenses, such as insurance agent commissions, advertising, and even sponsoring sports arenas and special events.

When setting rates, an insurance company estimates how much it will need to pay future claims and sets that money aside. Those funds are known as reserves. If the insurer collects more in premiums than it pays out in expenses and claims, the company has an underwriting gain.

If claims and expenses are more than the premiums collected for the year, that is considered an underwriting loss.

But an underwriting loss doesn't mean the insurance company lost money that year. Investments are another important source of income for insurers.

In addition to reserves, insurance companies have surplus funds. That's the money the insurer has beyond what it set aside in reserves to pay claims. The insurer earned that



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surplus over time after paying expenses, claims and shareholder dividends. The amount of the insurer's surplus depends on the rates it charges and how much the company made on investment earnings from reserves and surplus.

Reserves and surplus funds are invested in stocks, bonds, mortgages, real estate and other income-producing assets. Those investments generate significant additional income. Insurers can have an underwriting loss and still make significant profits for the year from investments.

Insurance companies operate as investment firms

Insurers operate primarily as investment firms that use underwriting — selling policies and collecting

premiums — to generate funds for investment. Insurance investor and Berkshire Hathaway Chairman Warren Buffett calls this “float”: the money the insurance company holds between the time it collects premiums and when it pays out claims. The insurance company invests float to earn more money.

Buffet's Berkshire Hathaway, which owns and operates several insurance companies, saw its float grow from \$39 million in 1970 to \$91 billion by 2016.

Because invested reserves can earn revenue, it benefits the company's bottom line to deny or delay paying claims. Each day a payment is delayed is another day that those premium dollars earn money for the insurance company.

Auto insurers profit more in Louisiana than other states

The average Louisiana policyholder pays more than policyholders in every other state in the nation except New York and Florida.

Louisiana is also one of the most profitable markets for auto insurers. In national rankings published in 2025, Louisiana was one of 18 states to make an underwriting profit in 2024. The state saw the third best underwriting profit nationally in private passenger auto policies, meaning they collected more in premiums than they paid out in auto liability claims.

Between 2015 and 2024, insurance companies made \$1.3 billion on private passenger auto liability policies in Louisiana. That's \$5.77 in profit for every dollar paid in claims.

Insurance companies are earning big returns selling auto policies in Louisiana even as consumers in the state struggle to afford high premium costs.



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In spite of the premium dollars they keep for investments and the profits they make, the insurance companies have gotten legislation passed that takes away citizens' rights and tilts the justice system in their favor.

One such bill makes it illegal to sue insurance companies when there is

an accident. An injured person can only sue the individual policyholder.

It's called tort "reform" and it greatly benefits insurance companies. It has never worked to lower rates but insurers continue to blame residents for making legitimate claims.

Sane safety solutions for lowering auto insurance rates

Based on the most recent five years of data from the National Association of Insurance Commissioners (2019-2023), insurance companies in Louisiana have consistently outperformed the national average in the personal auto market.

With lower loss ratios, insurance companies in Louisiana pay out less in personal auto claims relative to the premiums they collect compared to their national operations. This suggests that Louisiana policyholders may be paying premiums that exceed what's needed to cover actual claims costs.

Auto insurance rates in Louisiana increased 10.8% in 2022 and went up an additional 15.3% in 2023. Some policyholders saw small rate decreases in 2025. Louisiana Insurers, said fewer accidents is the primary reason they decreased rates.

It makes sense that fewer accidents would result in fewer claims. If people aren't being hurt, there is no damage to claim.

During testimony before the legislature, it was suggested that one of the factors driving up rates in Louisiana

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is the poor condition of its roads. Louisiana has the third worst roads in the nation.

Louisiana also has high truck-length and weight limits, both of which exceed those limits in all three neighboring states. The general weight limit in Louisiana is 80,000 pounds. Trucks with triple or

quad axles are allowed to carry 83,400 pounds on interstate roads and up to 88,000 pounds on non-interstate roads.

Heavier-weight trucks traveling at high speeds can make a significant difference in the number of accidents and the severity of injuries.

It's not surprising that, with a crash injury rate of 56 per 100,000 residents, Louisiana is the second worst state in the nation after Wyoming, in truck crash injuries per 100,000 residents. This is far worse than neighboring states, where the injury rate is between 40 and 42.

A better way to lower rates is to reduce the frequency and severity of car and truck crashes.

There are many ways to do this without taking away people's rights.

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