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## Health Insurers' Net Income Falls while the Health Reform Debate Continues, According to Highline Data

CAMBRIDGE, Mass., December 21 — According to a new analysis by Highline Data, the leading data provider of financial information on insurance companies, the health insurance industry reported a decline of 12.4 percent in net income, to \$8.2 billion, as of September 30 compared to the same period in 2008.

More than a third of health companies (335) reported underwriting losses in the third quarter, with larger market players considerably outperforming their smaller competitors. Thirty-five percent (\$2.8 billion) of total industry net income in the first nine months of the year was earned by the top 1 percent of companies ranked by 2008 total assets.

Underwriting costs, which primarily include health benefit payments, increased by 6.9 percent year-over-year and totaled \$332 billion as of September 30. Underwriting costs showed a five-year CAGR of 9.5 percent, outpacing total revenue, which showed a five-year CAGR of 9.2 percent.

Overall, the industry saw gains in total assets, member months and capital and surplus, which was an improvement over 2008 results, all of which reported declines. Return on average equity continued to decline, however, reaching a six-year low of 11.2 percent.

“While the public perception is that health companies are recording record profits, the reality they face is clearly a reduction in profit margins [Net Underwriting Margin], which reached a four-year low of 2.4 percent,” Laurie Dallaire, vice president and director of Highline Data, said. “Even before the anticipated impact of pending health reform legislation, the industry will continue to see depressed margins as companies strive to control premiums and benefits costs.”

The industry is under enormous strain to keep underwriting costs down, even as medical costs continue to climb. In the face of these contradictory pressures, health companies have so far managed in 2009 to keep the growth rate of underwriting costs below rates seen earlier in the decade.

<b>Health Insurance Industry Annual Growth</b>							
	<i>Year-over-Year Change</i>						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>3Q 2009</u>
<i>Total Assets</i>	29.3%	9.6%	19.7%	16.7%	8.2%	-1.3%	<b>7.0%</b>
<i>Capital &amp; Surplus</i>	47.7%	17.9%	26.6%	14.1%	12.4%	-7.1%	<b>10.0%</b>
<i>Member Months</i>	-0.5%	0.4%	5.6%	-9.7%	15.6%	-1.9%	<b>6.8%*</b>
<i>Total Revenues</i>	11.3%	6.9%	14.1%	10.7%	8.8%	5.9%	<b>6.0%*</b>
<i>Underwriting Costs</i>	9.6%	6.8%	13.7%	11.1%	9.4%	6.6%	<b>6.9%*</b>
<i>Underwriting Gain (Loss)</i>	84.8%	10.1%	23.0%	1.1%	-3.9%	-15.4%	<b>-22.2%*</b>
<i>Net Income</i>	87.3%	11.6%	21.9%	14.3%	5.7%	-48.0%	<b>-12.4%*</b>
<i>Net U/W Gain to Revenue</i>	3.9%	4.1%	4.4%	4.0%	3.5%	2.8%	<b>2.4%</b>
<i>Net Yield</i>	2.9%	3.2%	3.9%	5.1%	5.2%	2.3%	<b>2.9%</b>
<i>Return on Average Equity (ROAE)</i>	27.9%	25.5%	25.3%	24.3%	22.1%	15.5%	<b>11.2%</b>

\* Percent change from 9/30/2008

The 2009 figures discussed here are year-to-date. All of the data used in this analysis is available in Highline Data's online analytical resource, *Insurance Analyst PRO*. The data is derived from the annual and quarterly statutory financial statements filed with the National Association of Insurance Commissioners (NAIC) by individual companies. The California companies data is obtained from public filings submitted to the California Department of Managed Health Care.

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