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Strategic Claim Payment Delays:

Evidence from Property and Casualty Insurance

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From insight to impact.

Satellite images of wildfires burning in Southern California in January 2025

Sam Strgacich and Rossana Valverde at their Pasadena home, waiting on a smoke damage settlement from State Farm.

Claim payment timing is a financial management tool

- Insurers collect premiums upfront and pay claims only later, if risks materialize
- Insurers delay payments when facing financial constraints
- The paper unveils new and alternative response to well-documented premium adjustments, asset allocation, etc.

Institutional Background

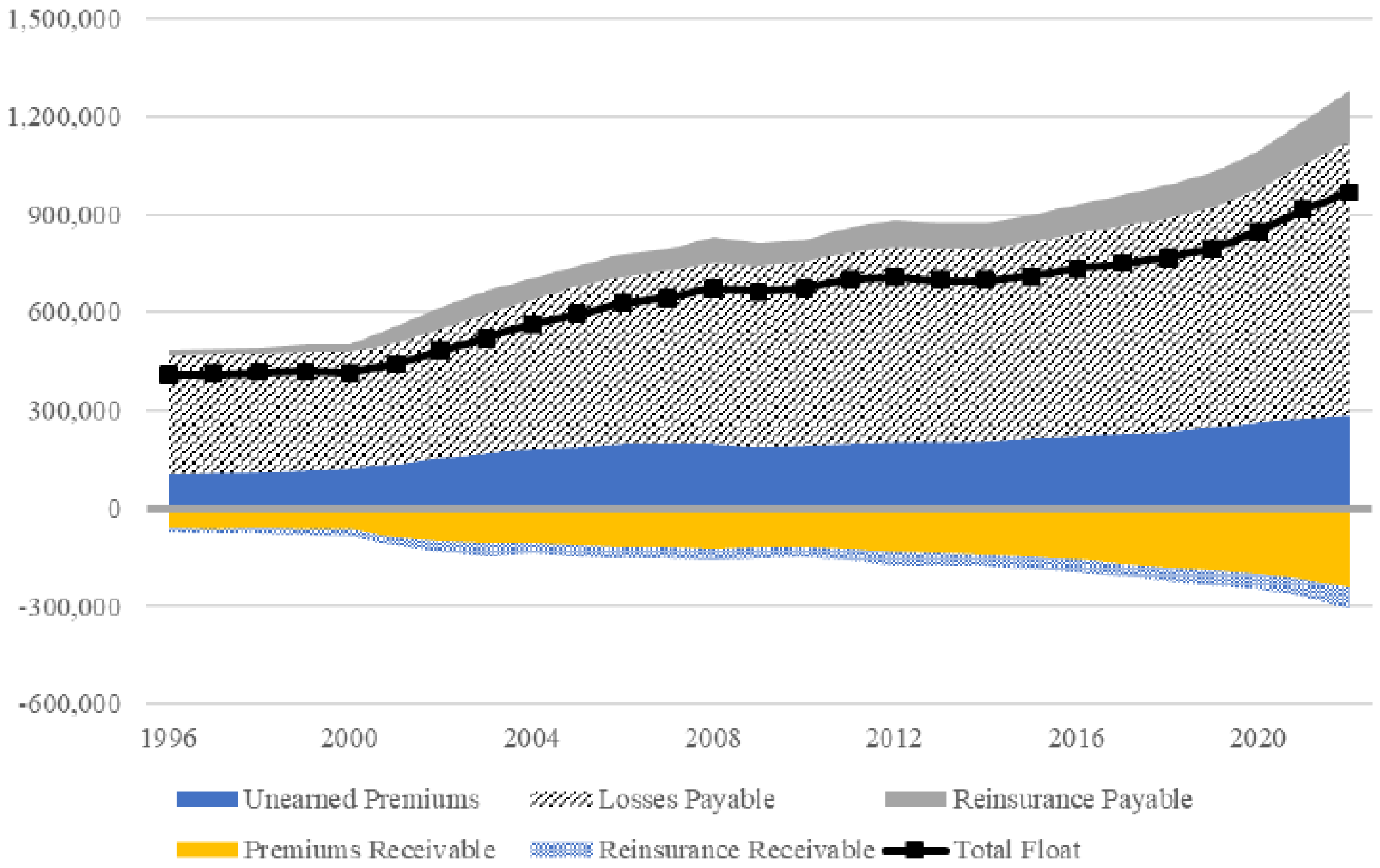
Property/casualty insurer balance sheet structure and dynamics

Balance sheet of a property/casualty (P&C) insurance company

Assets	Liabilities
Cash	Loss Reserves
Investments	*Unpaid Claims* (+)
Premium Receivables (–)	*Unearned Premiums* (+)
Reinsurance Recoverables (–)	Other Liabilities
Agent's Balances (–)	
Other Assets	
Total Assets	**Total Liabilities**

- **Float** is the difference between 'funds held but not owned' and 'funds owned but not held'
- Typically, the float of a P&C insurance company is positive

Insurer float magnitudes



Possible responses to a negative shock and a surge of claims

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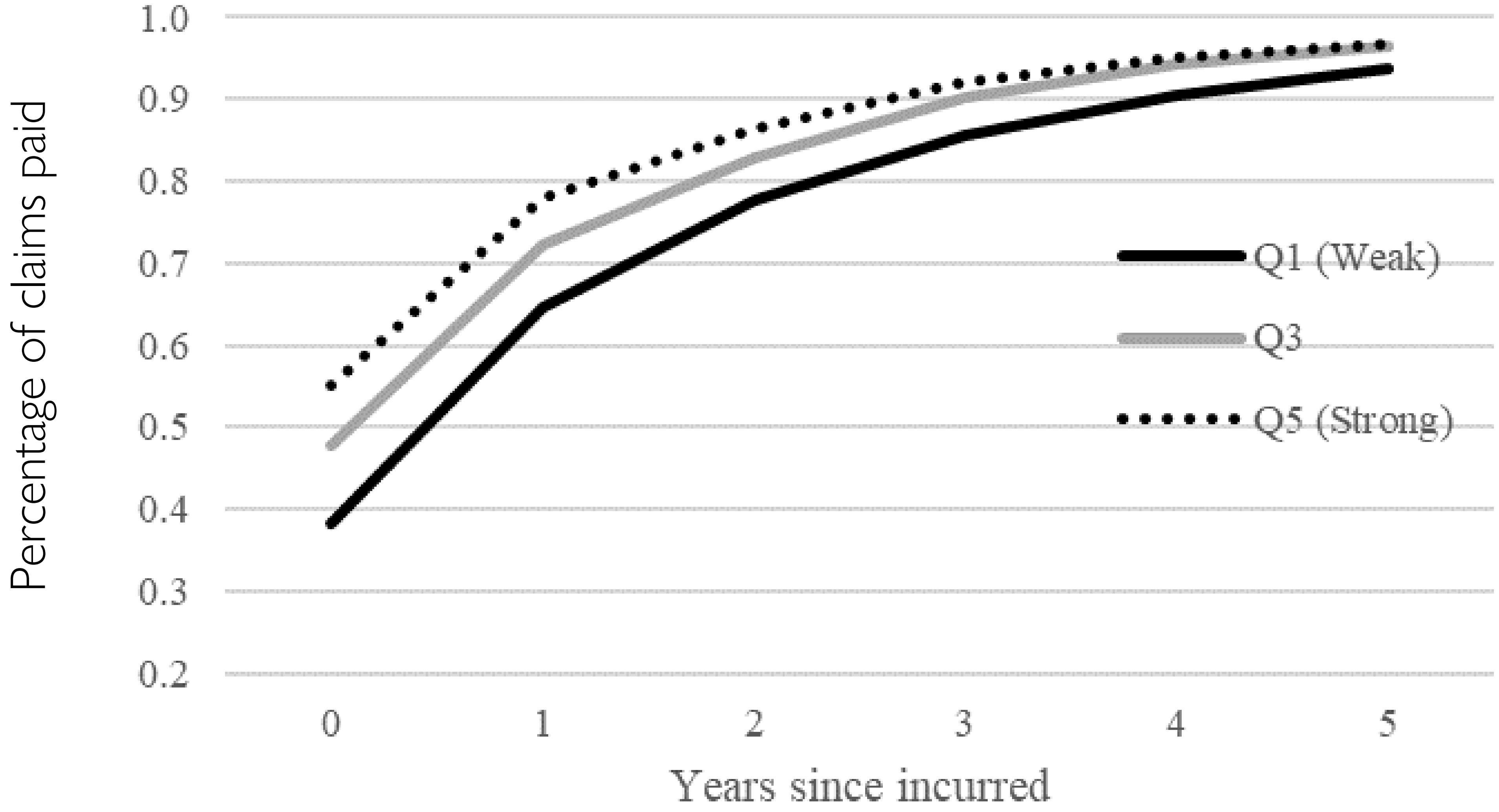
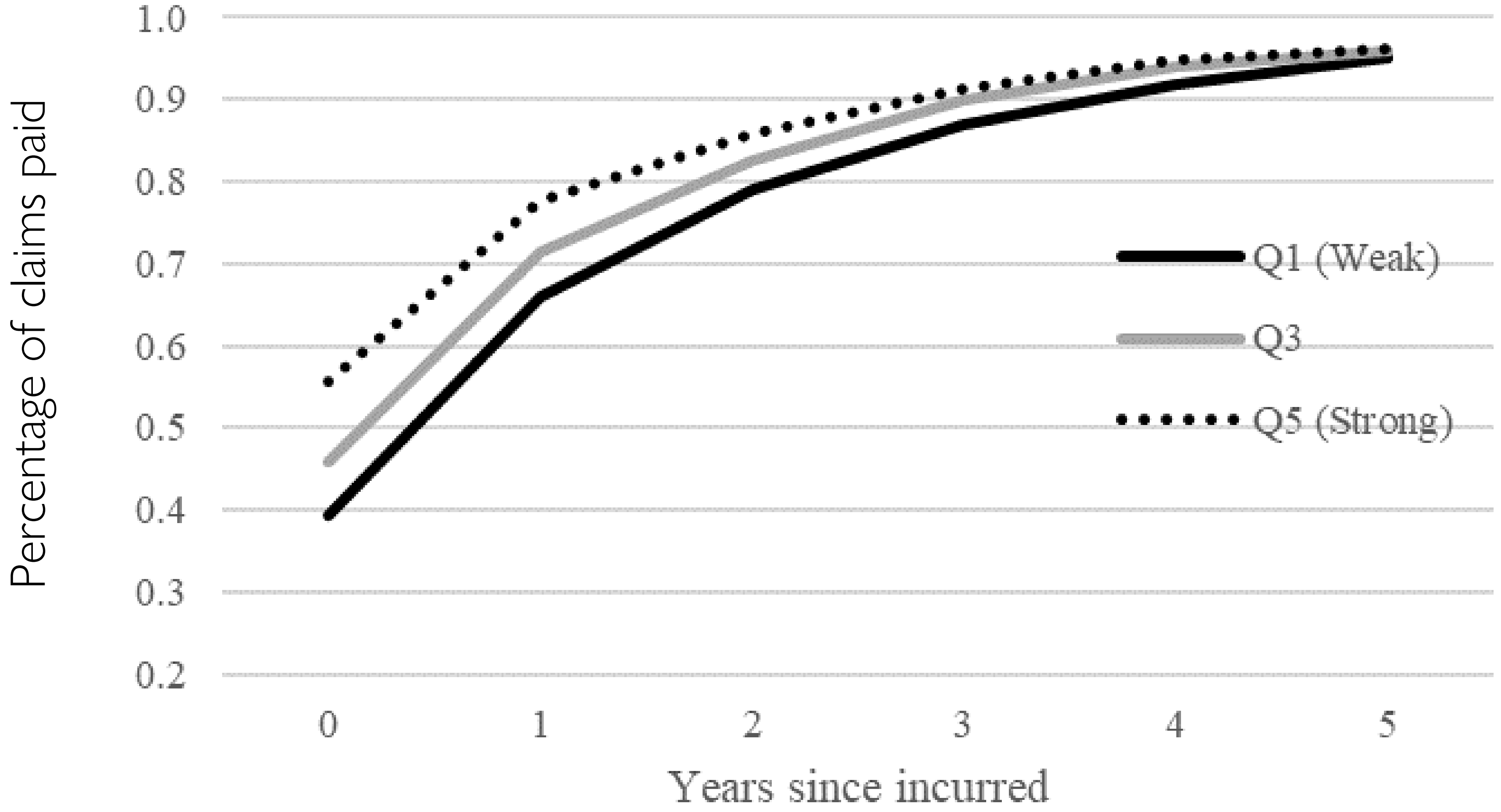
Total Assets	**Total Liabilities**

- ➢ Paying claims
- ➢ Raising premiums
- ➢ Delaying claim payments

Claim payment timing sorted by Risk Based Capital (RBC) ratio quartile



Claim payment timing sorted by liquid investments to liabilities ratio



Empirical analysis of payment delays

Data

- NAIC regulatory filings (1996–2021) for all US P&C insurance companies
  - Financial Pages, Schedule P: Evolution of premiums paid, loss reserves, premium-to-loss ratio, payment duration

- Focus on long-tailed insurance lines
  - Homeowner and farmowner insurance, private passenger auto liability, worker compensation, commercial auto liability, and commercial multi-perils

Financial Strength, Payment Speed and Pricing – Regression results

Dependent variable	Fraction of incurred losses paid in incurrence year			Payment duration (years)			Premium to loss ratio		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
RBC ratio (decimal)	0.007***		0.002**	-0.022***		-0.011***	0.012***		0.006*
	(0.001)		(0.001)	(0.002)		(0.003)	(0.003)		(0.003)
Liquid investments to liabilities		0.073***	0.064***		-0.198***	-0.152***		0.116***	0.091***
(decimal)		(0.008)	(0.009)		(0.021)	(0.024)		(0.024)	(0.026)
Controls									
log(Net total assets)	-0.137***	-0.160***	-0.162***	0.313***	0.366***	0.375***	-0.050**	-0.063**	-0.069**
	(0.009)	(0.010)	(0.010)	(0.025)	(0.027)	(0.028)	(0.025)	(0.031)	(0.030)
log(Net premiums)	0.126***	0.157***	0.159***	-0.290***	-0.364***	-0.372***	-0.005	0.017	0.022
	(0.009)	(0.009)	(0.010)	(0.025)	(0.028)	(0.028)	(0.025)	(0.032)	(0.031)
Share of long-tailed businesses	-0.021	-0.005	-0.010	0.093*	0.030	0.052	-0.112*	-0.114*	-0.127**
	(0.019)	(0.021)	(0.021)	(0.053)	(0.056)	(0.057)	(0.057)	(0.063)	(0.063)
Year fixed effects	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	14,920	12,474	12,474	11,260	9,325	9,325	14,920	12,474	12,474
R-squared	0.177	0.223	0.226	0.143	0.172	0.181	0.082	0.089	0.091

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Claim payment delays are at least as large as premium adjustments

- For an average insurer, an inter-decile increase in the RBC ratio translates in an additional loss and LAE reserve of at least $104 million

- In comparison to pricing, the inter-decile increase in the RBC ratio is associated with the premium difference of about $95 Million

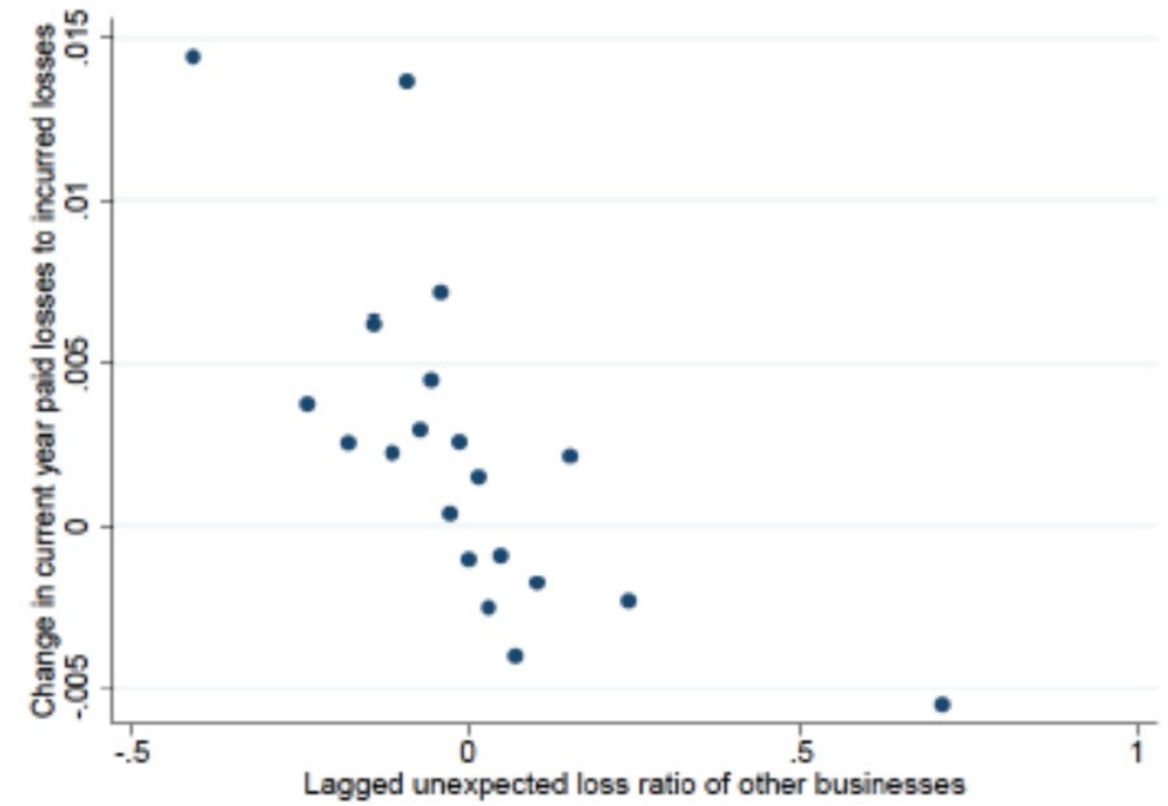
What does it mean to Sam and Rossana?

- Households borrow from credit cards at very high interest rates ranging 14-25% (Telyukova, 2013),
- Average payment duration of 0.96 years implies a cost to households in term of time value of money as high as $35-57 million, or 12-19% of incurred losses
- Switching to insurers in the top vs bottom decile could hypothetically reduce the delay by about 0.35 years, which translates to about 4-8% cost savings

Insurers respond to unexpected shocks by increasing delays

- Insurers slow the pace of payments in response to shocks to own lines

- More intriguingly, insurers also slow the pace of payments in response to shocks on unrelated lines



Analysis of customer complaints

Claim payment delays directly affect policyholders

- Customer complaints can be an indicator of
  - Insurer's strategic claim handling tactics: more delays → more complaints
  - Insurer's clientele: more sophisticated customers → more complaints

- Analysis of complaints data provide insights into:
  - How customers respond to delays
  - Whether customer sophistication affects delay strategies
  - The effectiveness of complaints in reducing delays

- Data on customers' complaints
  - Publicly available data from the Texas Department of Insurance, 2011 – 2024
  - Standardized data collected by the NAIC from the US state regulators, 2014-2024


Delays Claims
Claims Handling
Handling Delays
Cust Service
Service Claim
Claim Handling
Unsatisfactory Settle
Handling Unsatisfactory
Settle Offer
Handling Denial
Handling Cust
Liability Dispute
Delays Policyholder
Handling Liability
Handling Misrepresentation
Premium Delays
Notice Premium
Premium Denial
Claim Misrepresentation
Service Misrepresentation
Cancellation Denial
Claim Cancellation
Agent Handling
Misrepresentation Delays
Rating Delays
Notice Refund
Requirements Premium
Benefits Cust
Acts Agent
Misleading Advertising
Handling Cancellation
Fraud Cust
Rates Refund
Service Liability
Insurer Fraud
Closed Lack
Claim Post
Conversion Agent
Claim Refund
Unfair Discrimination
Premium Misrepresentation
Offer Cust
Dispute Unsatisfactory
Reports Cust
Rating Excessive
Within TDI
Premium Cust
Non Renewal
Claim Excessive
Premium Agent
Clms Handling
Premium Use
Rating Unsatisfactory
Rates Premium
TDI Jurisdiction
Underwriting Denial
Offer Cancellation
Offer Use
Cancellation Unsatisfactory
Reports Denial
Benefits Delays
Rider Premium
Service Delays
Handling Notice
Premium
Claim Liability
Refusal
Identification Card
Service Premium
Service Unsatisfactory
Offer Usual
Handling Premium
Excessive Rates
Misrepresentation Agent
Dispute Cancellation
Unauthorized Acts
Claim Delays
Discrim Clms
Use
Offer Delays
Offer Liability
Policyholder Service
Dispute Cust
Dispute Post
Service Refund
Misrepresentation Premium
Handling Refund
Reports Delays
Claim Denial
Dispute Excessive
Rider Refund
Acts Misrepresentation
Renewal Cust
Underwriting Refund
Post Claim
Claim Cust
Credit Reports
Coverage
Claim Notice
Non Disclosure
Offer Premium
Offer Non
Delays Underwriting
Insure
Benefits
Offer Assignment
Claim Underwriting
Rating Denial
Jurisdiction Delays
Dispute Delays
Handling Conversion
Rating Refund
Underwriting Cust
Necessity Unsatisfactory
Unfair Discrim
Handling Post
Refund
Cancellation Premium
Rating
Handling Agent
Claim Agent
Premium Cancellation
Service Cust
Dispute Denial
Claimant Fraud
Cancellation Cust
Premium Unsatisfactory
Offer Denial
Cancellation Refund
Renewal Premium
Service Cancellation
Endorsement Rider
Card Issue
Underwriting Use
Underwriting Premium
Service Identification
Misrepresentation Refund
Jurisdiction Unsatisfactory
Rates Post
Claim Premium
Cancellation Excessive
Conversion Misrepresentation
Premium Liability
Misrepresentation Unauthorized
Cancellation Delays
Rating Use
Info Complainant
Denial
Medical Necessity
Acts Delays
Assignment
Claim Unsatisfactory
Rating Cancellation
Offer Post
Premium Notice
Customary
Offer Excessive
Rating Cust
Cancellation Notice
Offer Unsatisfactory
Service Denial
Notice Requirements
Handling Excessive
Handling Unfair
Clue Reports

Complaints as a Disciplinary Force

- ➢ Insurers facing more complaints tend to delay payments less
  - ➢ A one standard deviation increase in complaints reduces delay tactics by 69%

- ➢ Who complains most?
  - – Higher complaint rates in:
    - • Homeowners & auto insurance (80% of all complaints)
    - • Policyholders in high-income areas
  - – Less financially sophisticated customers complain less → May face more delays

Conclusion

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- Financially stressed insurers delay claims to manage liquidity, alongside raising premiums
- Delays expand float, providing interest-free financing
- Most common among insurers with low RBC and poor liquidity
- Less sophisticated customers face more delays
- Policy implications:
  - Monitor payment timing, not just solvency or pricing
  - Enforce prompt payment laws and penalties
  - Improve transparency to aid consumer decisions