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Strategic Claim Payment Delays: Evidence from Property and Casualty Insurance

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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

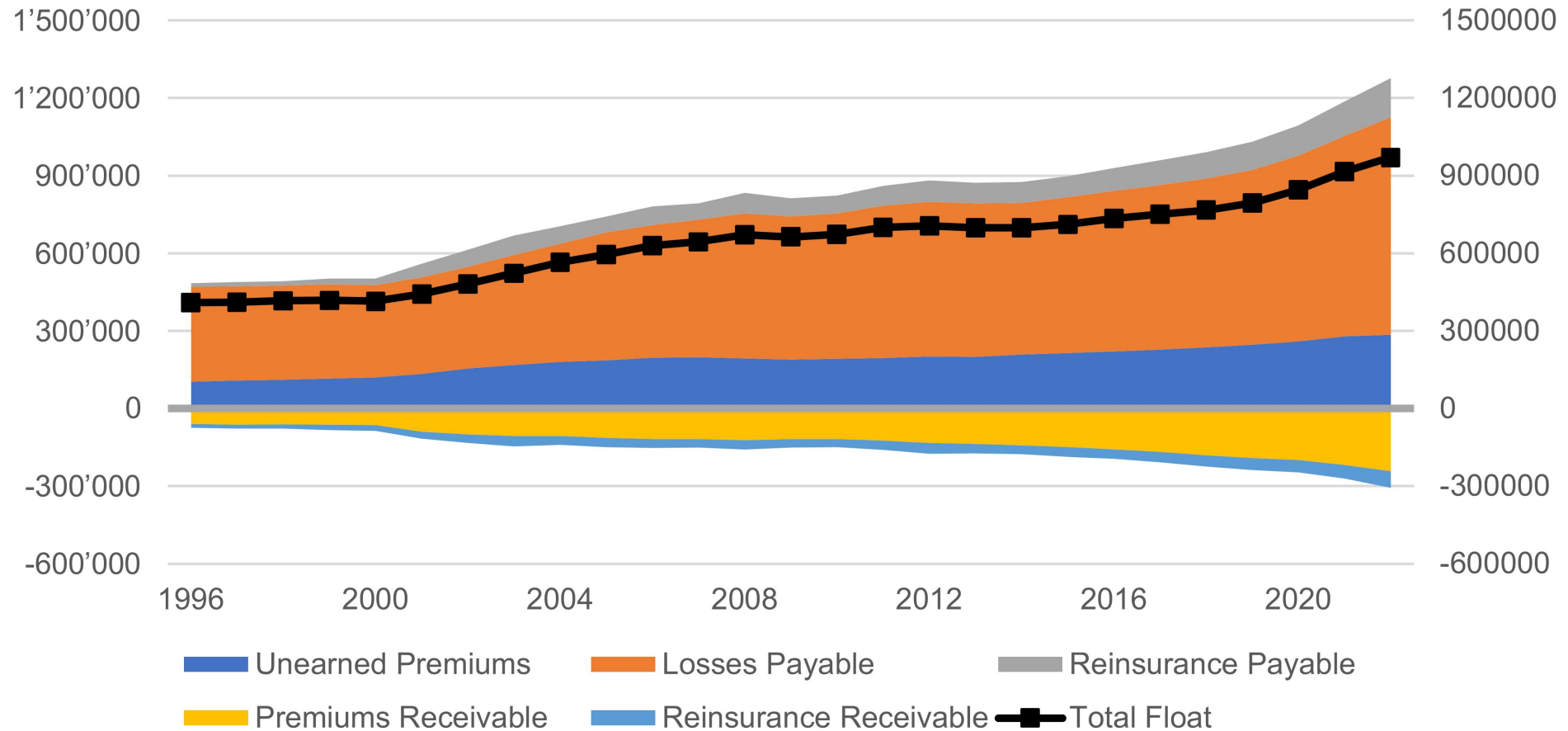
Property/casualty insurer balance sheet structure
and dynamics

Possible responses to a negative shock and a surge of claims

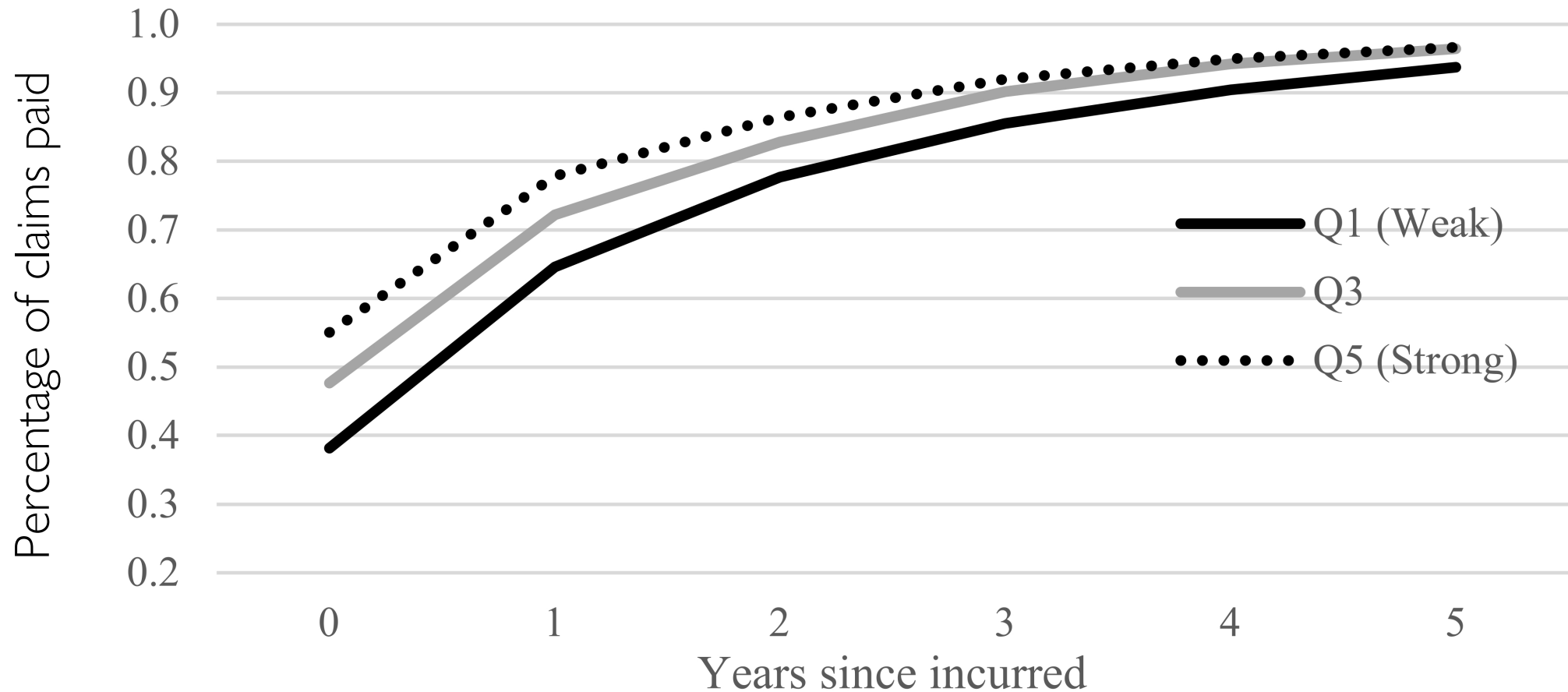
Assets	Liabilities
Cash Investments <i>Premium Receivables (-)</i> <i>Reinsurance Recoverables (-)</i> <i>Agent's Balances (-)</i> Other Assets	Loss Reserves <i>Unpaid Claims (+)</i> <i>Unearned Premiums (+)</i> Other Liabilities
Total Assets	Total Liabilities

- Paying claims
- Raising premiums
- Delaying claim payments

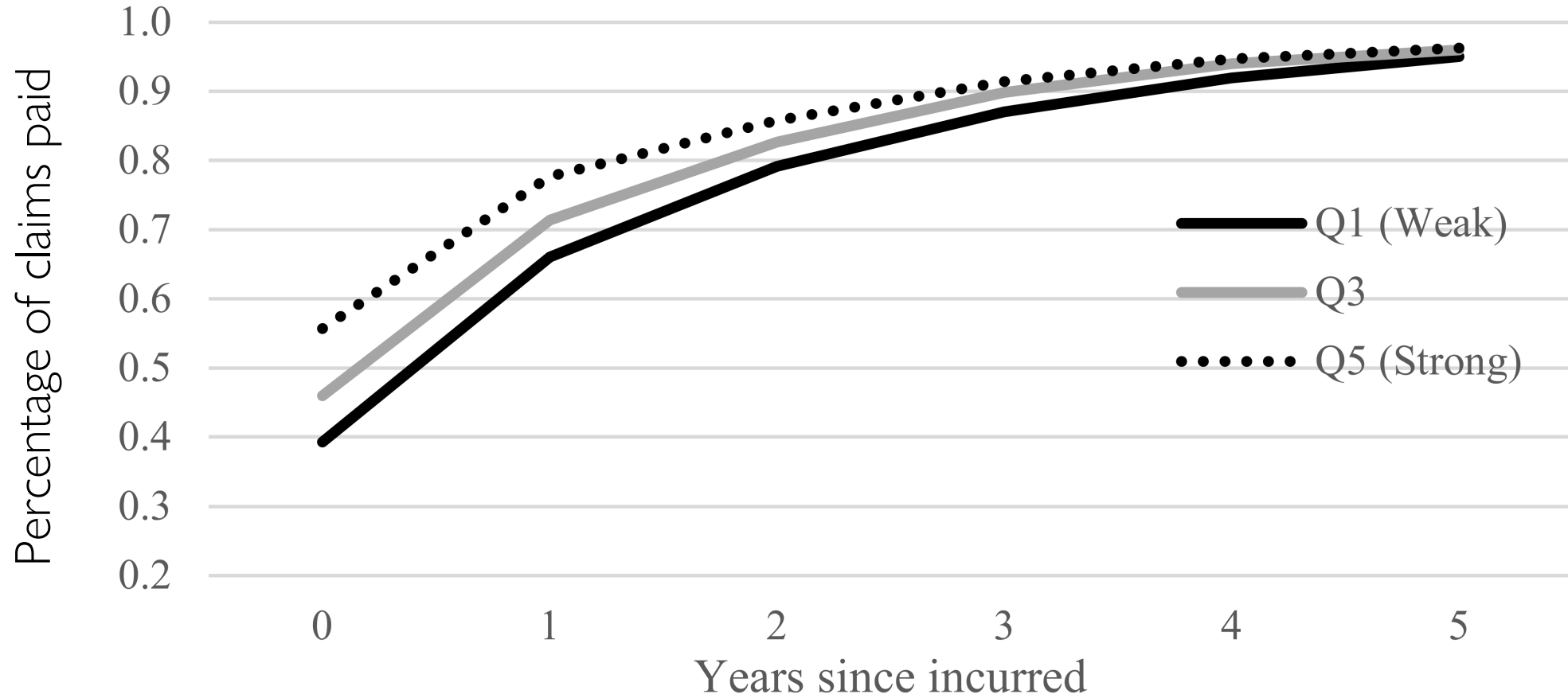
Insurer float magnitudes



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 (1)	Payment duration (years) (2)	Premium to loss ratio (3)
RBC ratio (decimal)	0.002** (0.001)	-0.011*** (0.003)	0.006* (0.003)
Liquid investments to liabilities (decimal)	0.064*** (0.009)	-0.152*** (0.024)	0.091*** (0.026)
Controls, Year FE	YES	YES	YES
Observations	12,474	9,325	12,474
R-squared	0.226	0.181	0.091

Claim payment delays are at least as large as premium adjustments

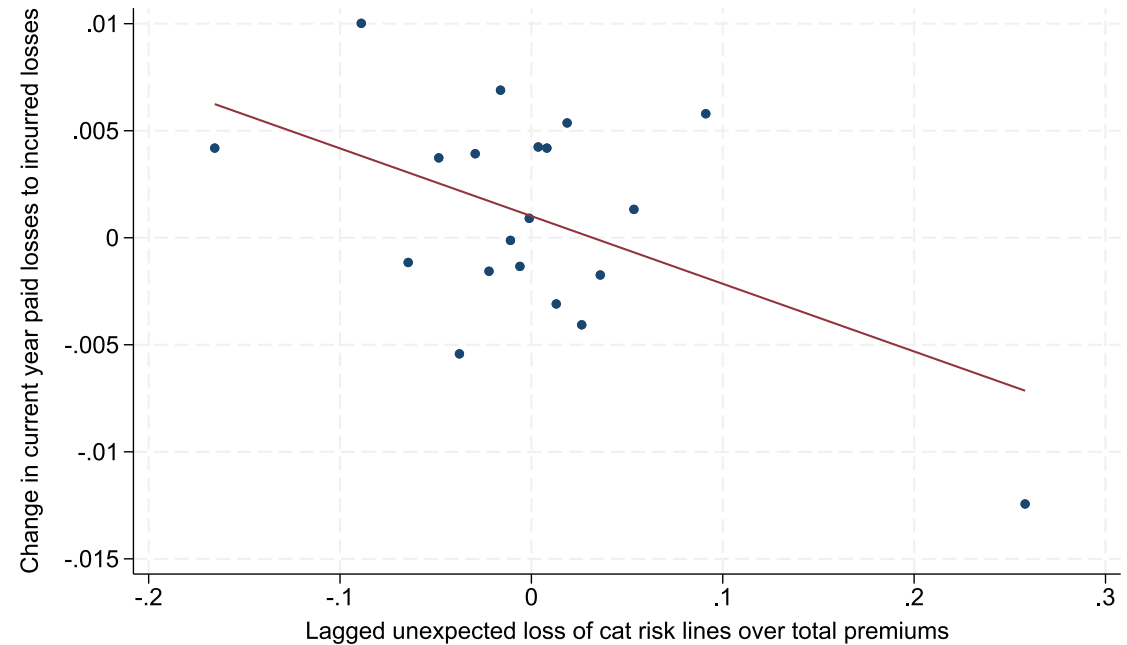
- For an average insurer, **an inter-decile increase in the RBC ratio** translates in an additional loss and LAE reserve of **at least \$52 million, or 9% of the average reserve**
- **In comparison to pricing**, the inter-decile increase in the RBC ratio is associated with the premium difference of **about \$28 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 terms 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



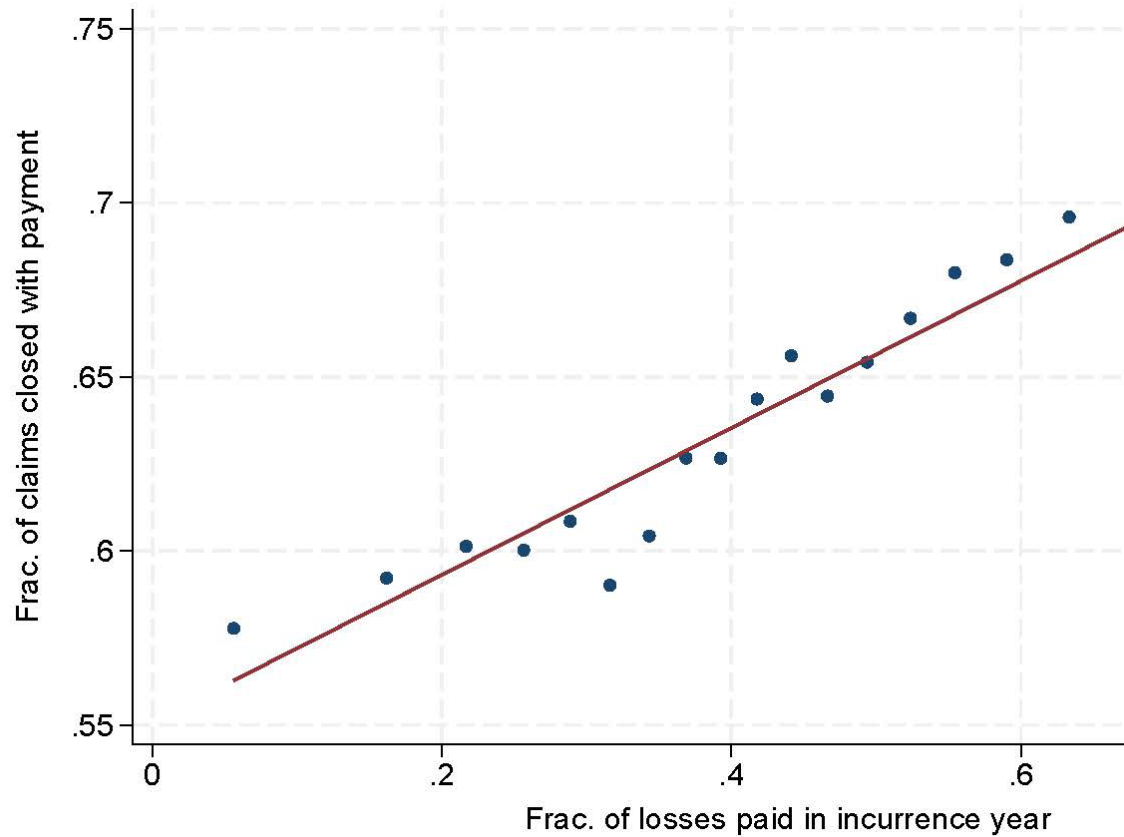
Unexpected Losses in “Own” Business Lines

Dependent variable	Δ Fraction of incurred losses paid in incurrence year (1)	Δ Fraction of 5-year cum. paid losses paid in incurrence year (2)	Δ Premium to loss ratio (3)
Losses in “own” lines to total premiums	-0.043*** (0.013)	-0.074*** (0.019)	1.128*** (0.135)
Controls, Firm FE, Year FE	YES	YES	YES
Observations	9,751	8,836	9,751
R-squared	0.056	0.059	0.115

Unexpected Losses in “Other” Businesses

Dependent variable	Δ Fraction of incurred losses paid in incurrence year (1)	Δ Fraction of 5-year cum. paid losses paid in incurrence year (2)	Δ Premium to loss ratio (3)
Losses in catastrophe lines to total premiums	-0.048*** (0.017)	-0.052** (0.023)	0.038 (0.058)
Losses in “own” non-catastrophe long-tailed lines to total premiums	-0.087** (0.043)	-0.150** (0.074)	0.402*** (0.130)
Controls, Firm FE, Year FE	YES	YES	YES
Observations	6,901	5,281	6,764
R-squared	0.073	0.060	0.242

Claim delays vs. claim denials



- Similar effects persist when one replaces claim delays with claim denials
- Furthermore, there is a strong correlation between claim delays and claim denials

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
- 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
- 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

[illegible]

Complaints as a Disciplinary Force

- Insurers **facing more complaints** tend to delay payments less
 - An interdecile increase in confirmed complaints **reduces delay tactics by about 50%**, measured by the decrease of the loading on losses in unrelated catastrophe lines
- 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

Unexpected losses, complaints, and changes in payment speed

Dependent variable	Δ Fraction of incurred losses paid in incurrence year		Δ Fraction of 5-year cum. paid losses paid in incurrence year	
	(1)	(2)	(3)	(4)
Δ “Confirmed” complaints to direct premiums	0.045* (0.023)	-0.019 (0.023)	0.041 (0.030)	-0.070 (0.047)
Losses in catastrophe lines to total premiums		-0.081** (0.038)		-0.048 (0.041)
Δ “Confirmed” complaints $\times$ Losses in catastrophe lines		0.284** (0.125)		0.500* (0.258)
Losses in “own” non-catastrophe long-tailed lines to premiums	-0.069 (0.091)	-0.117 (0.089)	-0.584*** (0.180)	-0.639*** (0.180)
Controls, Firm FE, Year FE	YES	YES	YES	YES
Observations	2,639	2,468	1,384	1,303
R-squared	0.118	0.137	0.142	0.151

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

Why Relocating After a Wildfire Can Be Impossible - Heatmap News

October 27, 2025

Valverde detailed that seven months after the Jan 2025 Eaton Fire, **their Pasadena house was still untouched and unsafe to enter**; State Farm's adjuster reportedly minimized the damage. Because of extended displacement and month-to-month rental approvals, she and her husband **purchased a home in Monrovia** to live in while the **Pasadena claim remains unresolved**.

