



# **No-Fault Auto Insurance Fraud in Florida *Trends, Challenges & Costs***

**State of Florida**

**Insurance and Banking Legislative Subcommittee  
Tallahassee, FL**

**January 26, 2011**

**Robert P. Hartwig, Ph.D., CPCU, President & Economist**

Presented by: Lynne McChristian, I.I.I. Florida Representative

**Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038**

# Florida's Auto No-Fault Fraud Problem = Florida's Fraud Tax



- Florida Has a Huge and Rapidly Growing Auto No-Fault Fraud Problem.
- The Cost to Insurers to Cover Out-of-Control No-Fault Fraud is Rising by 70% per Year.
- These Costs Constitute a “Fraud Tax” that Will Eventually Be Passed Along to Millions of Honest Florida Drivers.
- If Nothing is Done to Address the Problem, No Fault Fraud Costs Will Approach \$1 Billion in 2011.

# Florida's Anti-Fraud Statute



- **Insurers required to investigate suspected fraud.**
  - Florida Statute (Section 626.9891) requires insurers with \$10 million or more in direct premiums annually to have either an in-house unit or contract with an outside entity to investigate possible fraudulent claims.
  - Insurers with less than \$10 million in direct premiums must adopt an anti-fraud plan.
- **Insurers' anti-fraud plans must detail procedures for:**
  - Detecting and investigating possible fraudulent acts.
  - Mandatory reporting of fraud to the Division of Insurance Fraud.

# Definition of a Questionable Claim

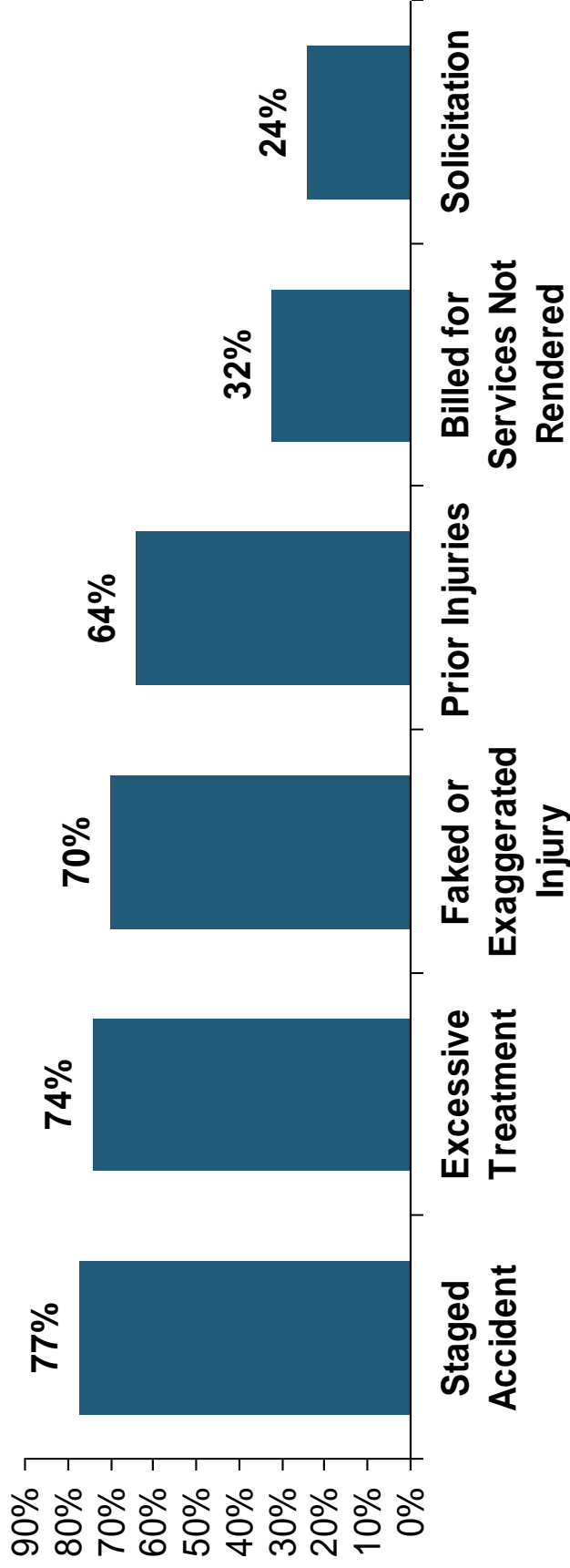


- The National Insurance Crime Bureau (NICB) calls a *questionable claim (QC)* one that is referred to their organization for closer review and investigation based on one or more indicators of possible fraud.
- A single claim may contain up to seven referral reasons.
- Referral reason categories of claims— property, **casualty**, commercial, workers' compensation, **vehicle** and miscellaneous.
- The NICB has more than 1,000 members, including property/casualty insurers, self-insured organizations, and transportation-related firms.

# Florida Casualty Referrals for Fraud: 1st Half 2010 vs. 1st Half 2009

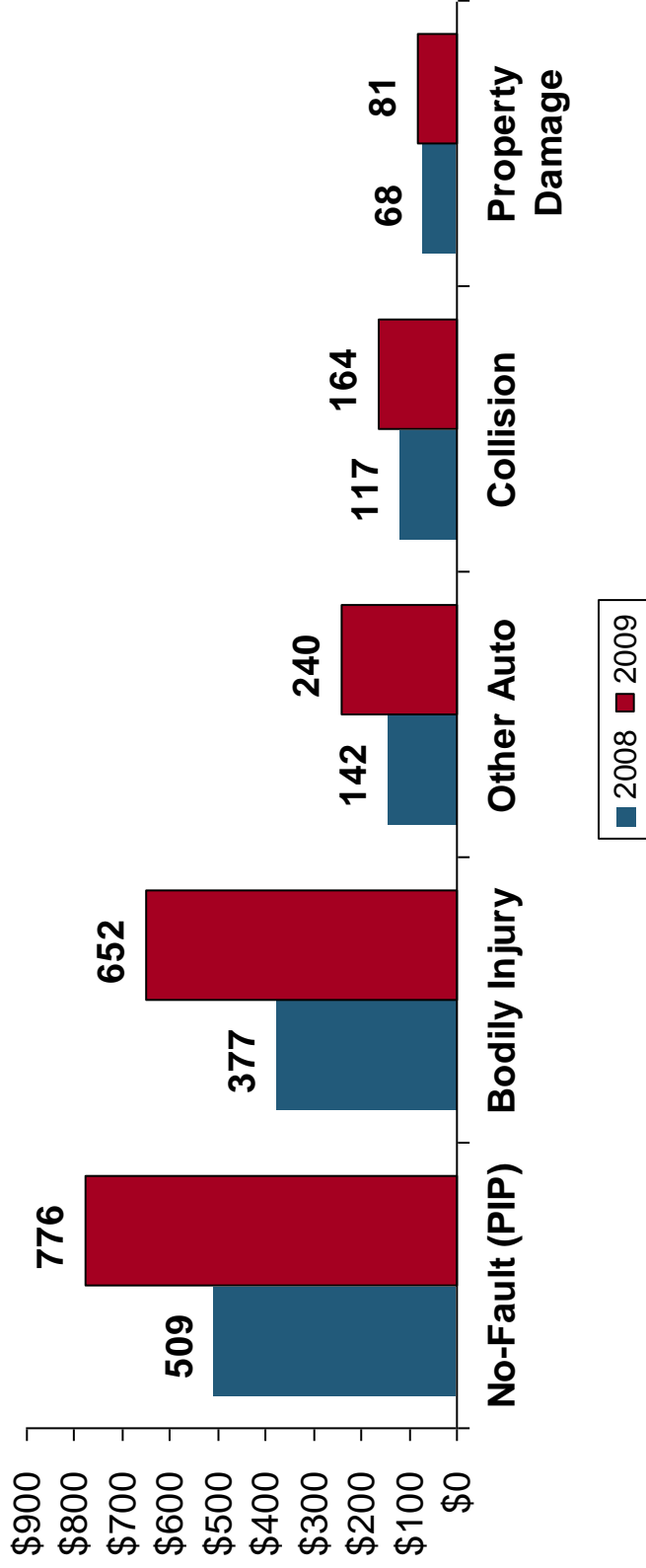


Percent Change

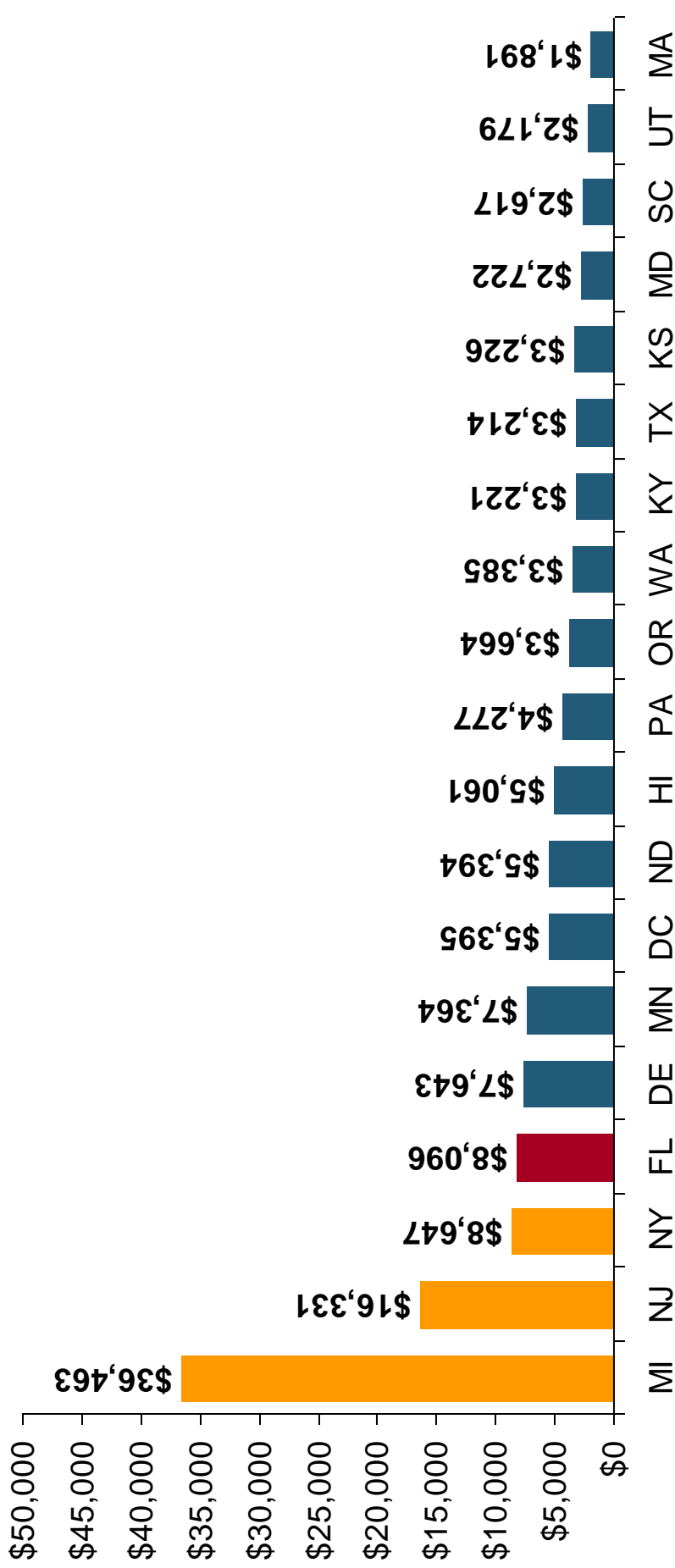


Sources: National Insurance Crime Bureau; Insurance Information Institute.

# Florida Staged Accident Questionable Claims by Loss Type: 2008 vs. 2009

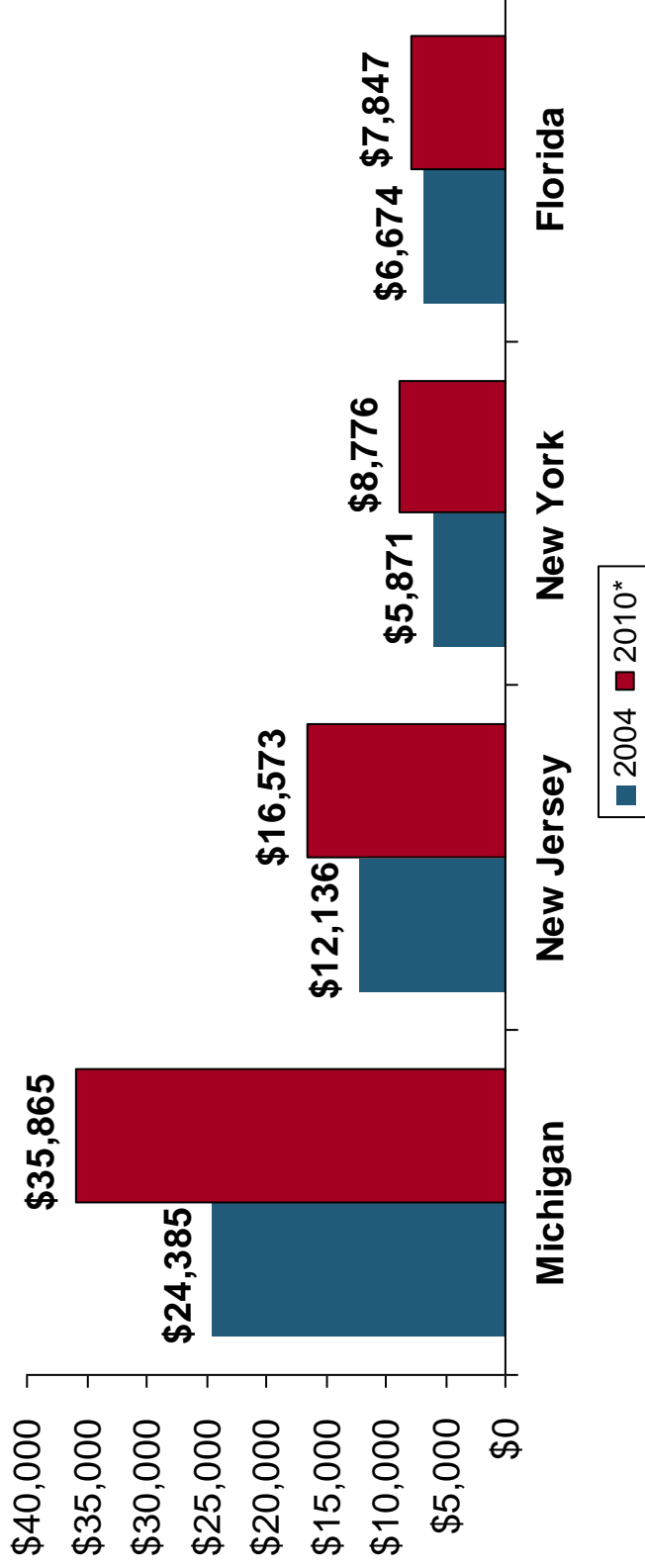


# Average No-Fault Claim Severity, 2010:Q3



Source: ISO/PCI Fast Track data; Insurance Information Institute.

# Increase in No-Fault Claim Severity: 2004-2010\*



\*2009 figure is for the 4 quarters ending 2010:Q3.

\*\* Since 2006 the increase in Florida was 23.7% (average severity that year was \$6,344).

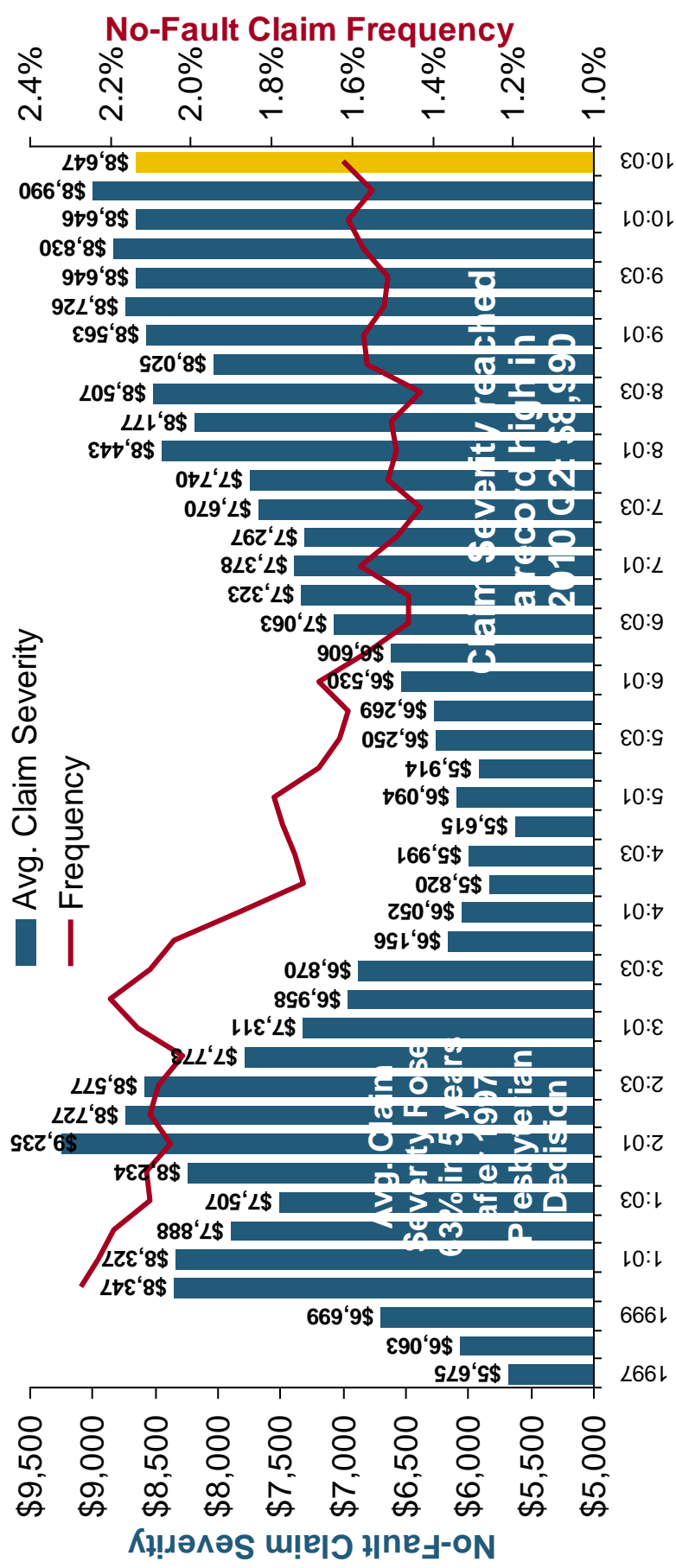
Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.



# New York State No-Fault Claim Severity, 1997-2010:Q3



## No-Fault Claim Severity

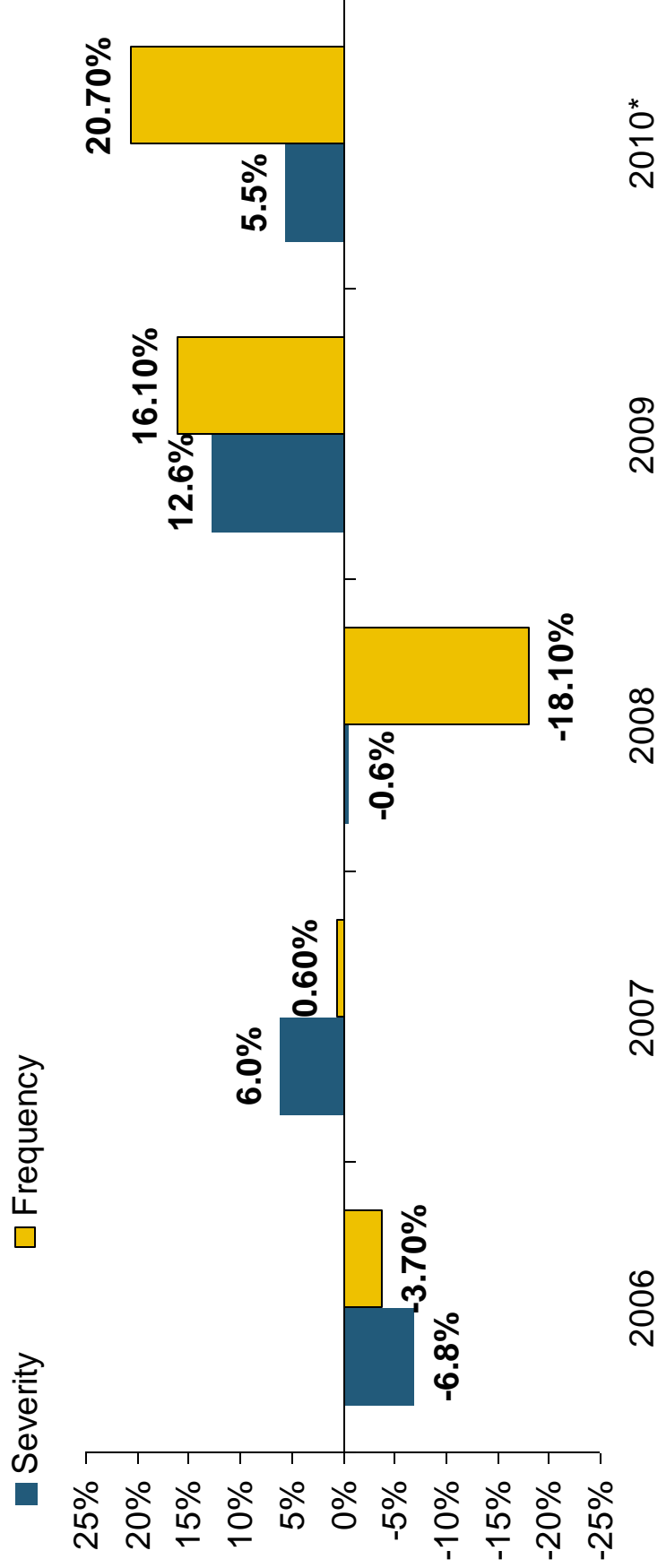


Sources: ISO/PCI Fast Track data; Insurance Information Institute.

# Florida No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse\*



Annual Change, 2006 through 2010\*

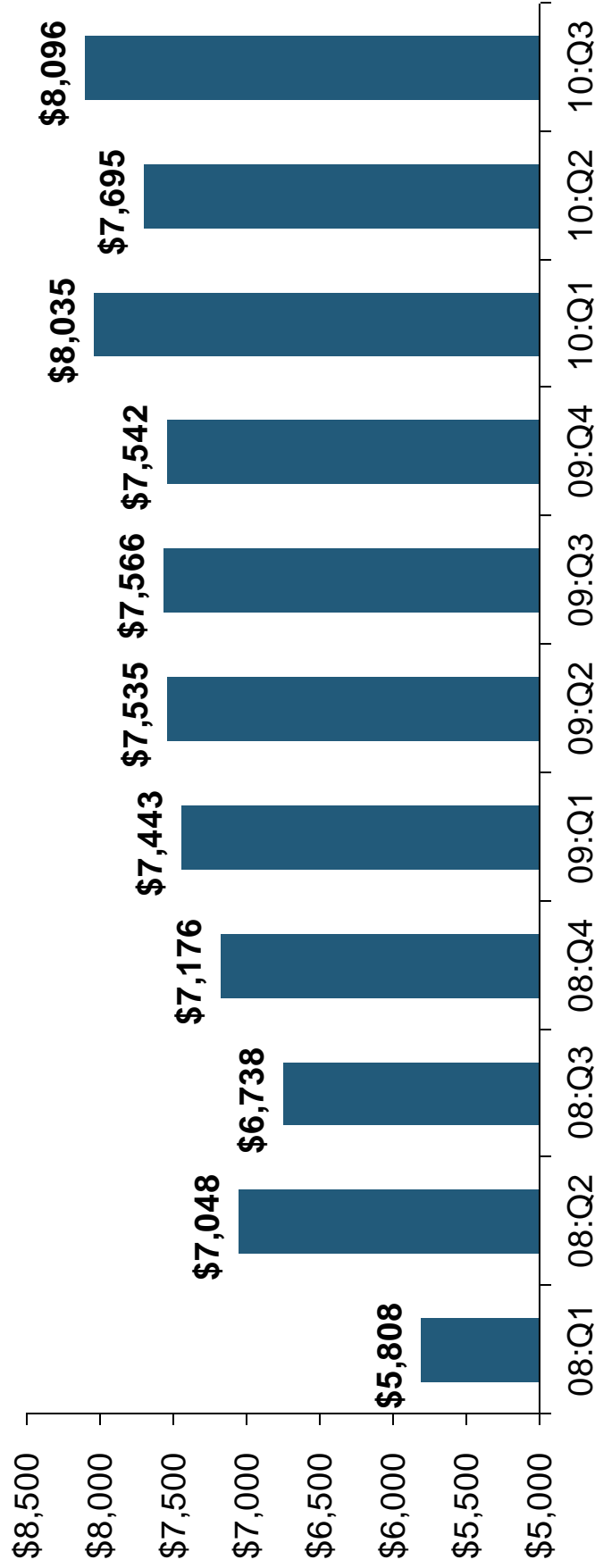


Source: ISO/PCI Fast Track data; Insurance Information Institute

# Florida No-Fault (PIP) Claim Severity Is Trending Sharply Upward\*



2008:Q4 through 2010:Q3

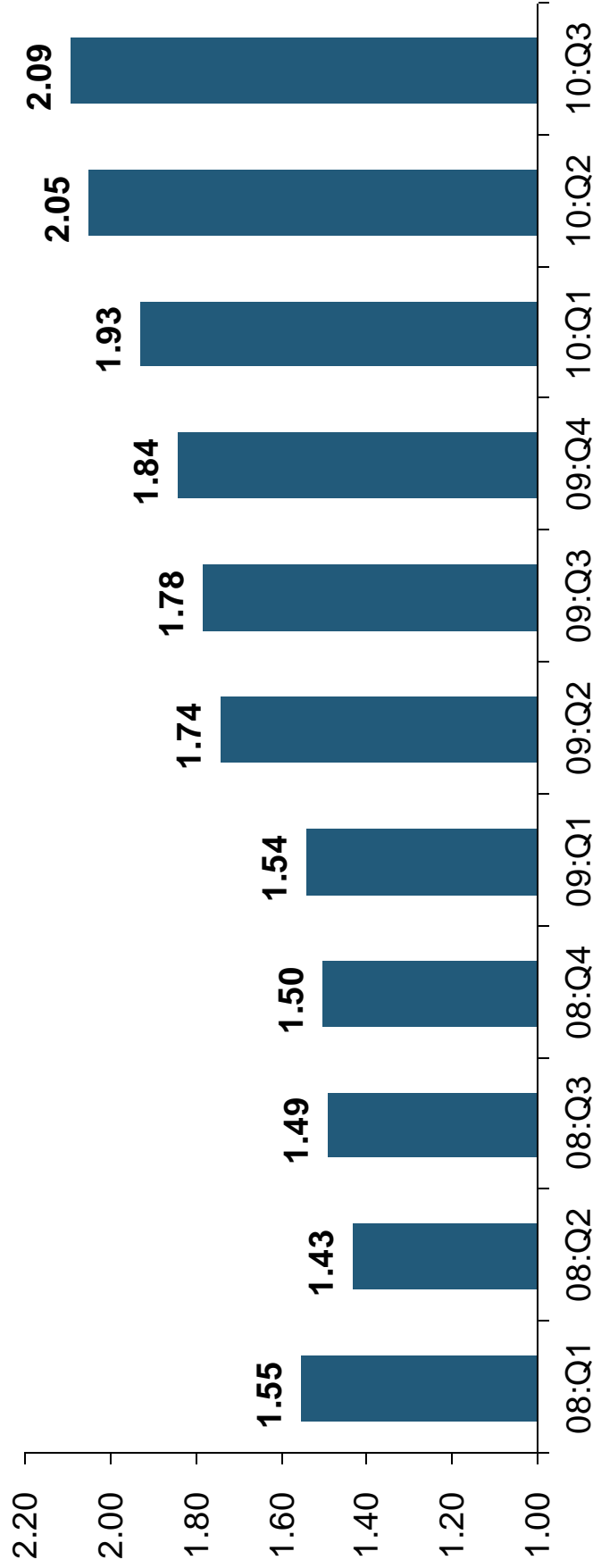


\*Claim frequency is defined as the number of claims per 100 earned car years.  
Source: ISO/PCI Fast Track data; Insurance Information Institute

# Florida No-Fault (PIP) Claim Frequency Is Trending Sharply Upward\*



2008:Q4 through 2010:Q3

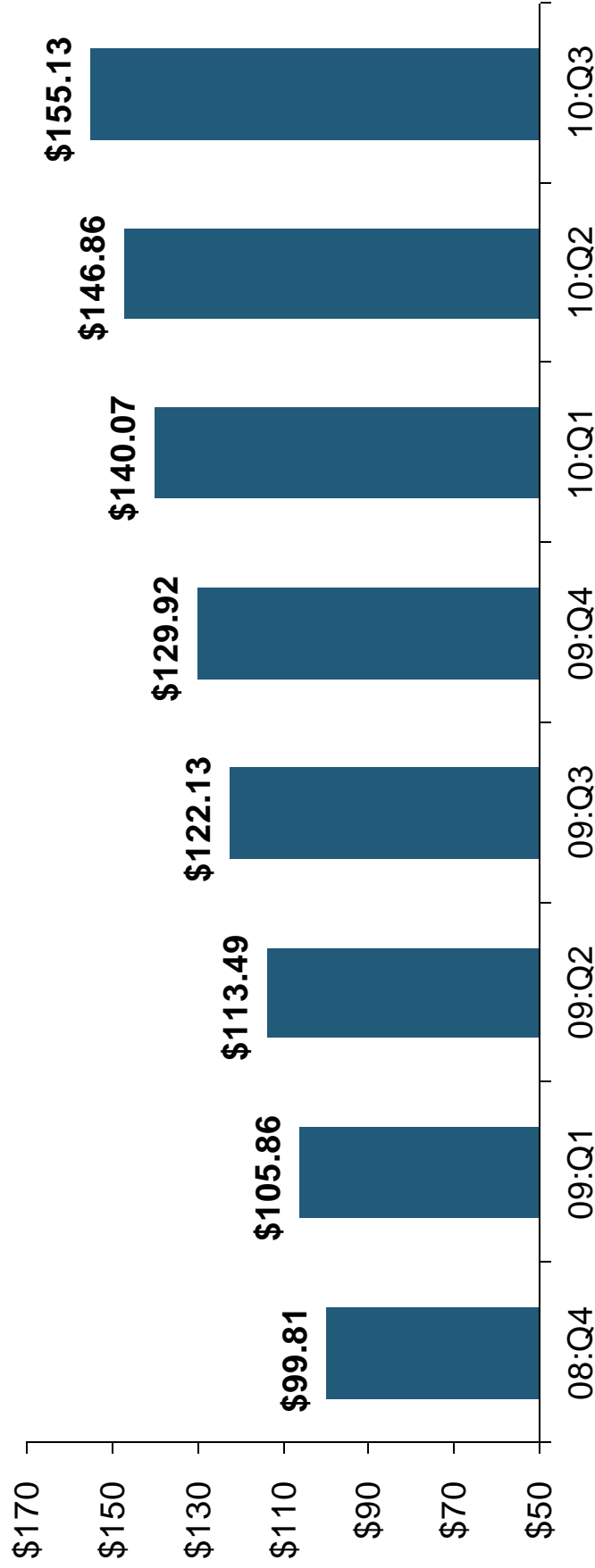


\*Claim frequency is defined as the number of claims per 100 earned car years.  
Source: ISO/PCI Fast Track data; Insurance Information Institute

# Florida No-Fault (PIP) Pure Premiums Are Trending Sharply Upward\*



2008:Q4 through 2010:Q3\*\*



\*Pure Premium is defined as the premium that is required to pay the expected loss. It excludes expenses and other costs of doing business.

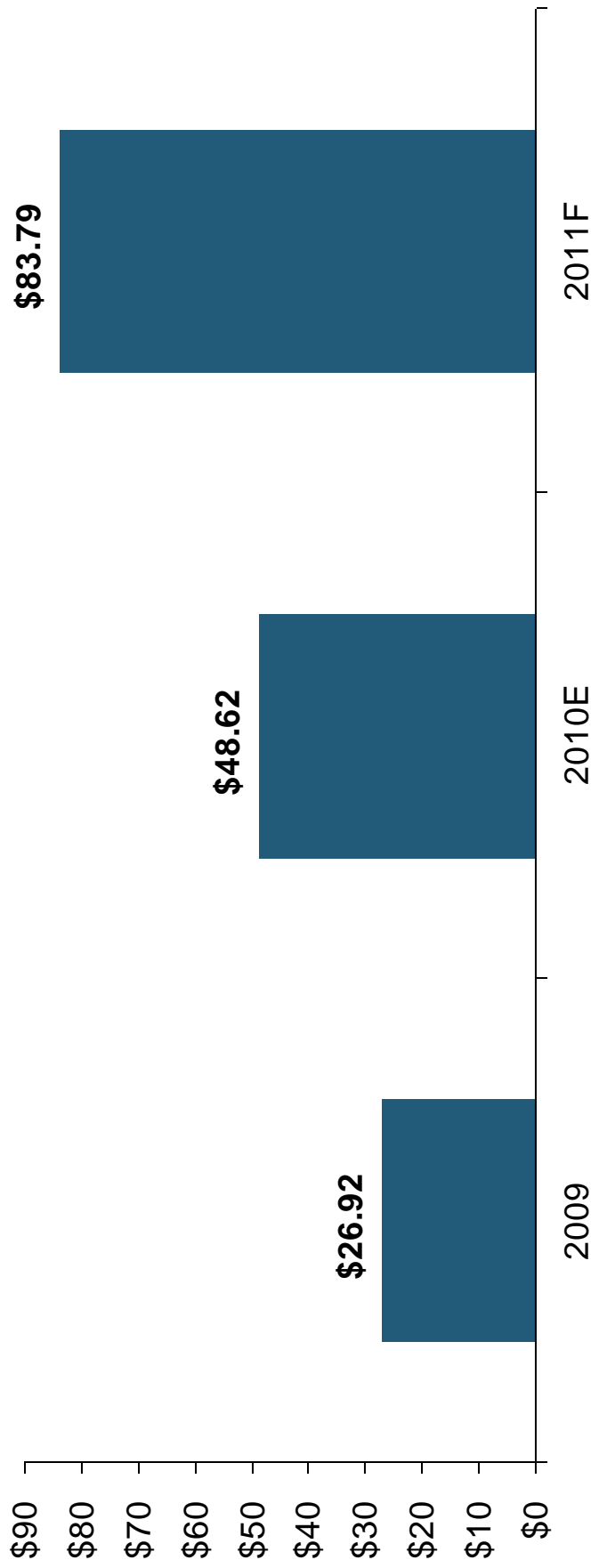
\*\*Figures are for the 4 prior quarters ending in the period.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# Florida's No-Fault Fraud Tax: Estimated Cost per Insured Vehicle, 2009-2011F



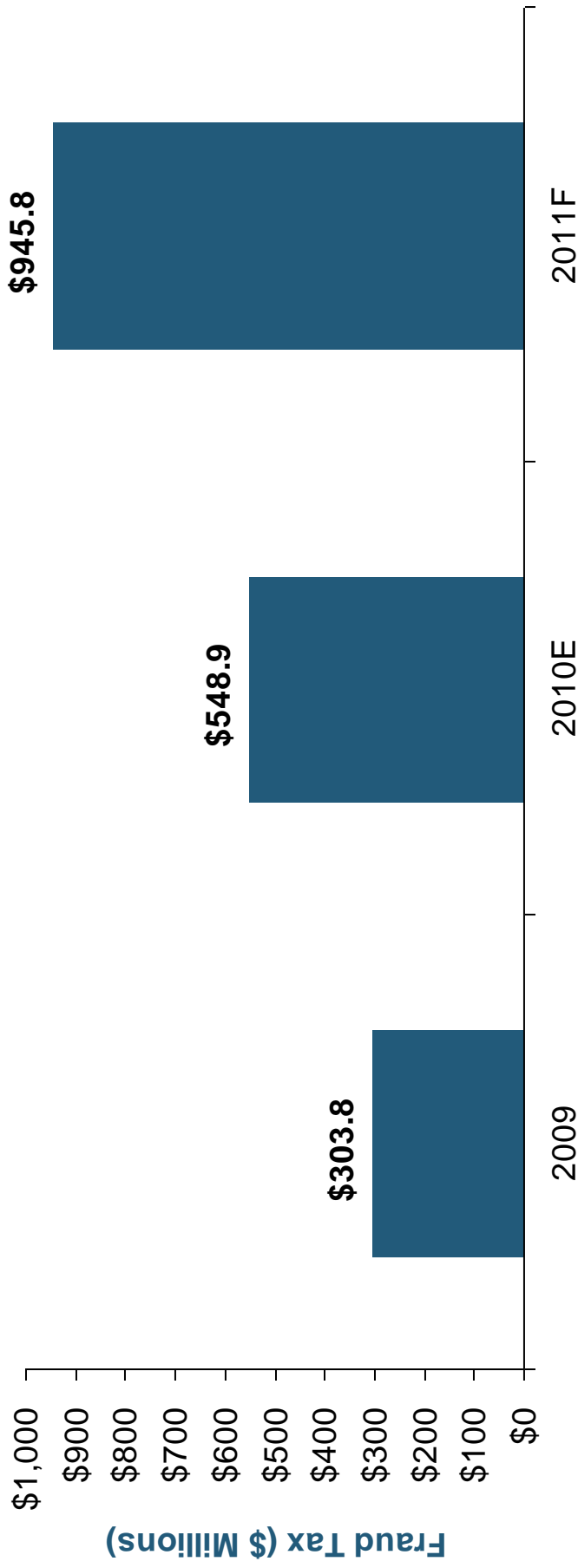
## Fraud Tax Per Vehicle



\*2010 estimate is based on data through Q3:2010. 2011 forecast is based on an assumed increase in pure premium of 25% (pure premium increased 27% in the 4 quarters ending with 2010:Q3).

Source: Insurance Information Institute calculations and research.

# Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011F (\$ Millions)



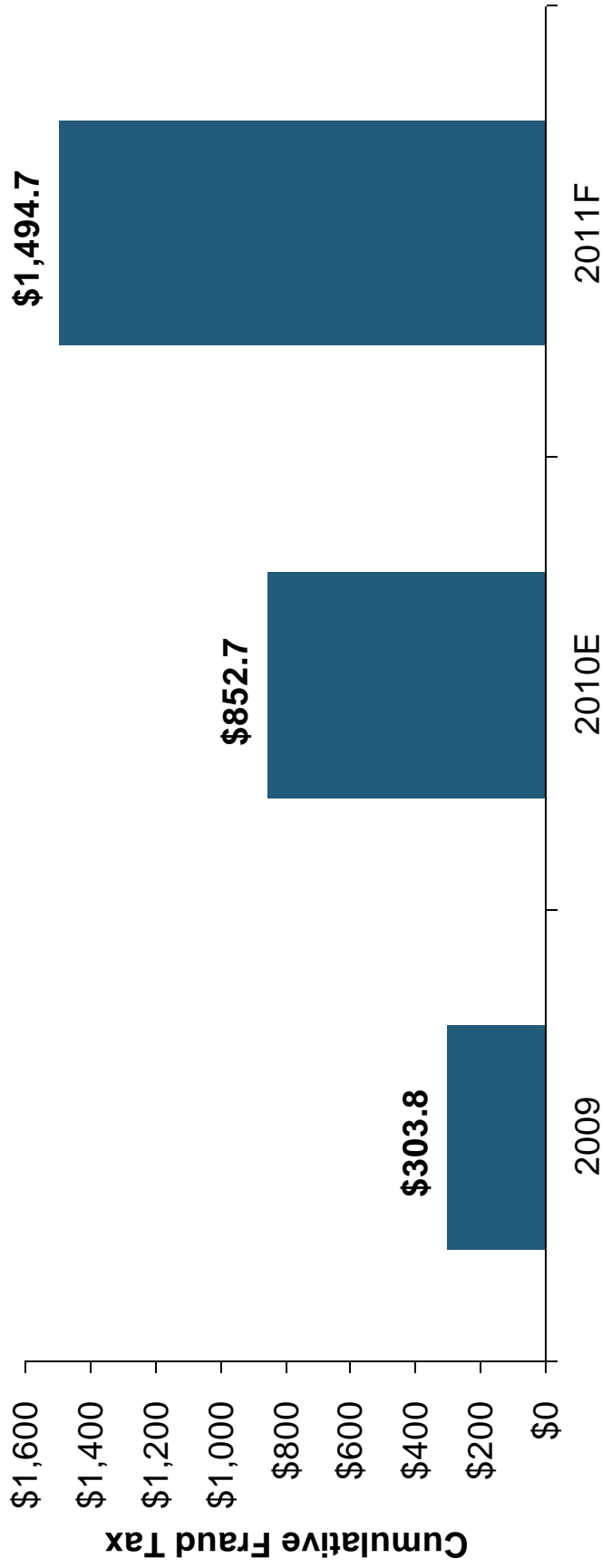
\*2010 estimate is based on data through Q3:2010. 2011 forecast is based on an assumed increase in pure premium of 25% (pure premium increased 27% in the 4 quarters ending with 2010:Q3). Estimates assume 11.288 million insured vehicles in FL in 2009-2011 (11.288 million is 2008 actual figure from AIPSO).

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

# Florida's No-Fault Fraud Tax: Estimated Cumulative Cost, 2009-2011F (\$ Millions)



## Cumulative Fraud Tax



\*2010 estimate is based on data through Q3:2010. 2011 forecast is based on an assumed increase in pure premium of 25% (pure premium increased 27% in the 4 quarters ending with 2010:Q3). Estimates assume 11.288 million insured vehicles in FL in 2009-2011 (11.288 million is 2008 actual figure from AIPSO).

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.



# Summary

- No-Fault fraud is adding hundreds of millions of dollars in cost to Florida's auto insurance system today.
- If nothing is done to slow rapidly escalating fraud costs, auto insurance rates in Florida could rise sharply.
- No-fault fraud has already cost Florida vehicle owners and their insurers and estimated \$853 million since 2008. This total could rise to \$1.5 billion if the problem is left unchecked.
- The typical 2-car family in Florida could be required to pay what amounts to a "Fraud Tax" totaling nearly \$100 based on estimated 2010 no-fault fraud costs.
- Awareness among Florida consumers, regulators, legislators and law enforcement is low and must be raised in order to engage affected parties and combat fraud.

## ■ The Florida no-fault fraud tax calculation is based on the actual vs. expected difference in the no-fault pure premium.

- The no-fault pure premium is defined as the premium per policy that is required to pay the expected average loss arising from a no-fault claim. No allowance is made for ordinary operating costs or the costs of investigating or prosecuting fraud, hence actual costs are higher. [The average underwriting expense ratio on private passenger auto insurance was 24.1% according to A.M. Best over the period from 2000—2009.]
- The base year for the analysis is 2008 with an pure premium of \$98.81 in FL (Source: ISO)
- A reasonable expectation is that such costs rise each year by the same increment as the medical component of Consumer Price Index (MCPi). The change in the MCPi was 3.2% in 2009 and 3.4% in 2010. Adjusting the base 2008 pure premium figure by these amounts yields an expected pure premium of \$103.00 in 2009 and \$106.51 in 2010. Assuming the MCPi is unchanged in 2011 the expected pure premium is \$110.13.
- Actual no-fault pure premiums were much higher than expected: \$129.92 in 2009 (up 30.2%) and \$155.13 in 2010 (up 19.4% for the 4 quarters ending 9/30/10, latest available data). Assuming an increase of 25% (approximately the average over the prior two years) yields a forecasted pure premium of \$193.91 in 2011 in the absence of reform legislation.
- The no-fault fraud tax for each year is calculated as the difference between the actual and expected pure premium. Thus the 2009 No-Fault Fraud Tax = \$129.92 - \$103.00 = \$26.92; 2010 Fraud Tax = \$155.13 - \$106.51 = \$48.62; 2011 Fraud Tax = \$193.91 - \$110.13 = \$83.79
- The Aggregate No-Fault Fraud Tax is equal to the Estimated No-Fault Fraud Tax for the year multiplied by the number of insured private passenger vehicles. That figure was 11,288,414 in 2008 (Source: AIPSO) and is assumed to remain constant through 2011. The Aggregate No-Fault Fraud Tax in 2010, for example, is thus \$48.62 X 11,288,414 = \$548.9 million.

**Insurance Information Institute Online:**

***Thank you for your time  
and your attention!***

**Twitter: [twitter.com/bob\\_hartwig](https://twitter.com/bob_hartwig)  
[twitter.com/InsuringFLA](https://twitter.com/InsuringFLA)**