Michigan Needs to Put Brakes On Factors Driving Up the State’s Auto Insurance Rates

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Michigan Is Only State In U.S. To Offer Unlimited Threshold for No-Fault Claims

INSURANCE INFORMATION INSTITUTE

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LANSING, MICHIGAN, December 3, 2009 - Dr. Robert Hartwig, president of the Insurance Information Institute (I.I.I.) and an economist, said today that Michigan drivers will continue to pay more than most Americans for auto insurance until public policymakers address the underlying costs behind this trend.

So what is driving Michigan’s auto insurance costs up in both absolute and relative terms? While the cost drivers influencing the price of auto insurance in Michigan are similar to those in other states in most respects, there is one glaring exception—its unlimited threshold for no-fault auto insurance claims, Dr. Hartwig testified, in remarks before the Michigan House Insurance committee. No other state in the country provides unlimited no-fault benefits, and for good reason—with unlimited benefits come unlimited costs.

Dr. Hartwig noted that the average no-fault auto insurance claim in Michigan rose an astounding 250 percent, to $31,883 in 2007 from $9,103 in 1998, because the system operates with virtually no checks or balances. Unlike almost any other state, Michigan has no medical fee schedules, no utilization controls or treatment protocols, and no state insurance fraud bureau to investigate and prosecute fraud and abuse in the no-fault system.

Michigan’s unlimited no-fault threshold exposes the state’s drivers to the full force and fury of runaway health care costs. Quite literally, Michigan’s no-fault system is the last and greatest blank check in the U.S. healthcare system, Dr. Hartwig said. These rising costs are reflected in the premiums Michigan drivers pay but do not lead to increased insurance industry profits, he added.

The average auto insurance policyholder in Michigan spent $928 in 2007 to insure his or her vehicle, compared with $795 for the typical U.S. driver in that same year, making Michigan’s rates the 11th highest in the nation. Yet these higher premiums have done little to boost the auto insurance industry’s bottom line in the state, with Michigan auto insurers’ average return on net worth (RNW) in the private-passenger market standing at 2.1 percent between 1998 and 2007, a time frame in which the national RNW number in this same market stood at 8.4 percent. In contrast, a risk-free investment in 10-year U.S. Treasury notes over the same span of time (1998-2007) would have provided a rate of return of 4.9 percent.
In his testimony, Dr. Hartwig argued that efforts to either restrict or ban certain underwriting tools, such as credit-based insurance scores, will not lower auto insurance premiums. Likewise, he said, efforts to create low cost auto insurance policies to improve affordability without also reducing the benefits provided are doomed to failure. Such programs implicitly require subsidies, he stated.

With more than 100 companies offering auto insurance in the state, lack of competition is clearly not a contributing factor to Michigan’s relatively high automobile insurance premiums. Solutions of what to do about the state’s relatively high auto insurance premiums must necessarily focus on cost drivers, Dr. Hartwig concluded.

For Dr. Hartwig’s presentation, go to The State of Michigan’s Insurance Consumer Advocate[3].

For more facts about auto insurance, go to Facts and Statistics: Auto Insurance[4].

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