



No-Fault Auto Insurance Fraud in Florida

Trends, Challenges & Costs

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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 Will Eventually Be Passed Along to Florida Drivers**
- **This Cost Constitutes a “Fraud Tax” that is Lining the Pockets of Certain Unscrupulous Medical Providers and their Attorneys and Will Ultimately Be Borne by Florida's Drivers**
- **If Nothing is Done to Address the Problem, No Fault Fraud Costs Will Approach \$1 Billion in 2011**

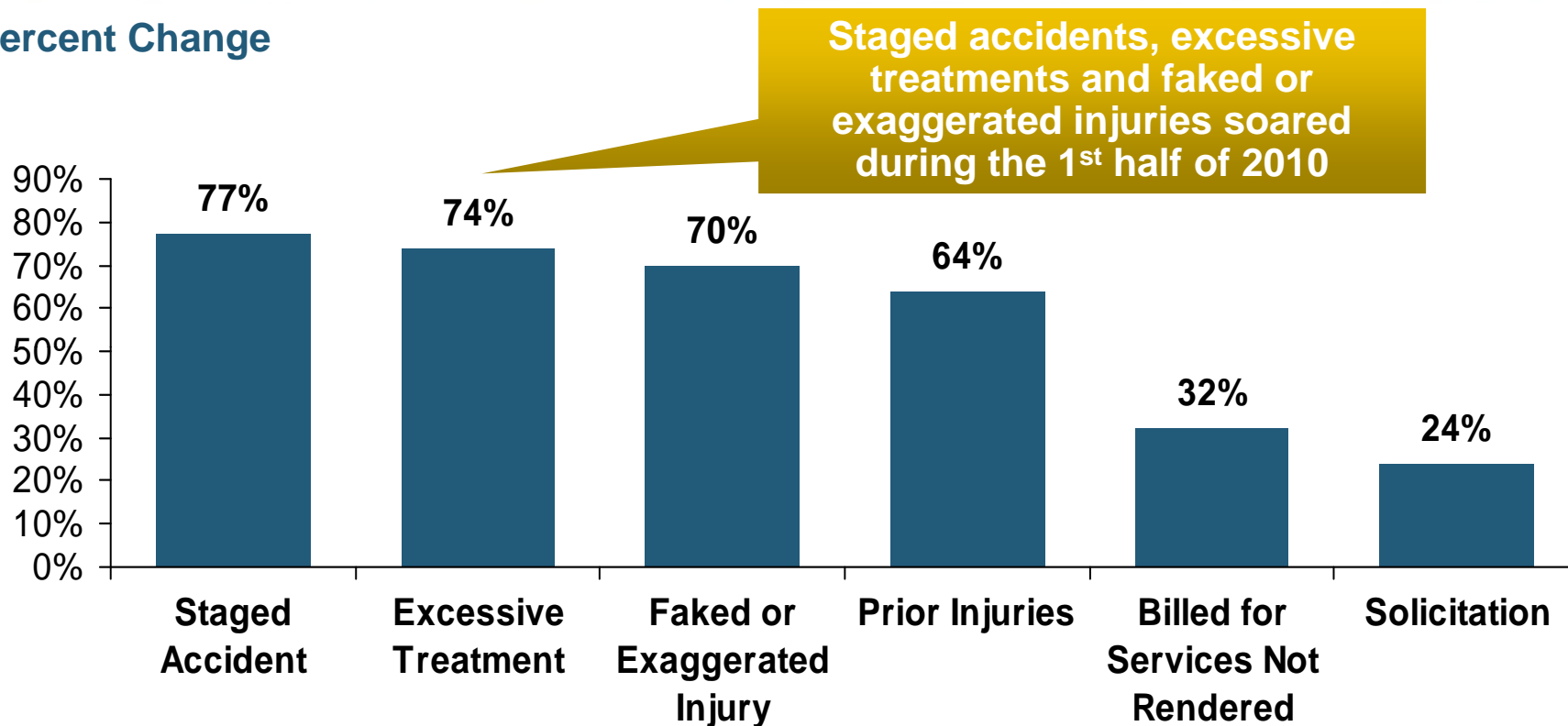
- **Insurers required to investigate suspected fraud.**
 - Florida Statute (Section 626.9891) requires insurers with \$10 million or more in direct premiums annually to have either an in-house unit or contract with an outside entity to investigate possible fraudulent claims.
 - Insurers with less than \$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.

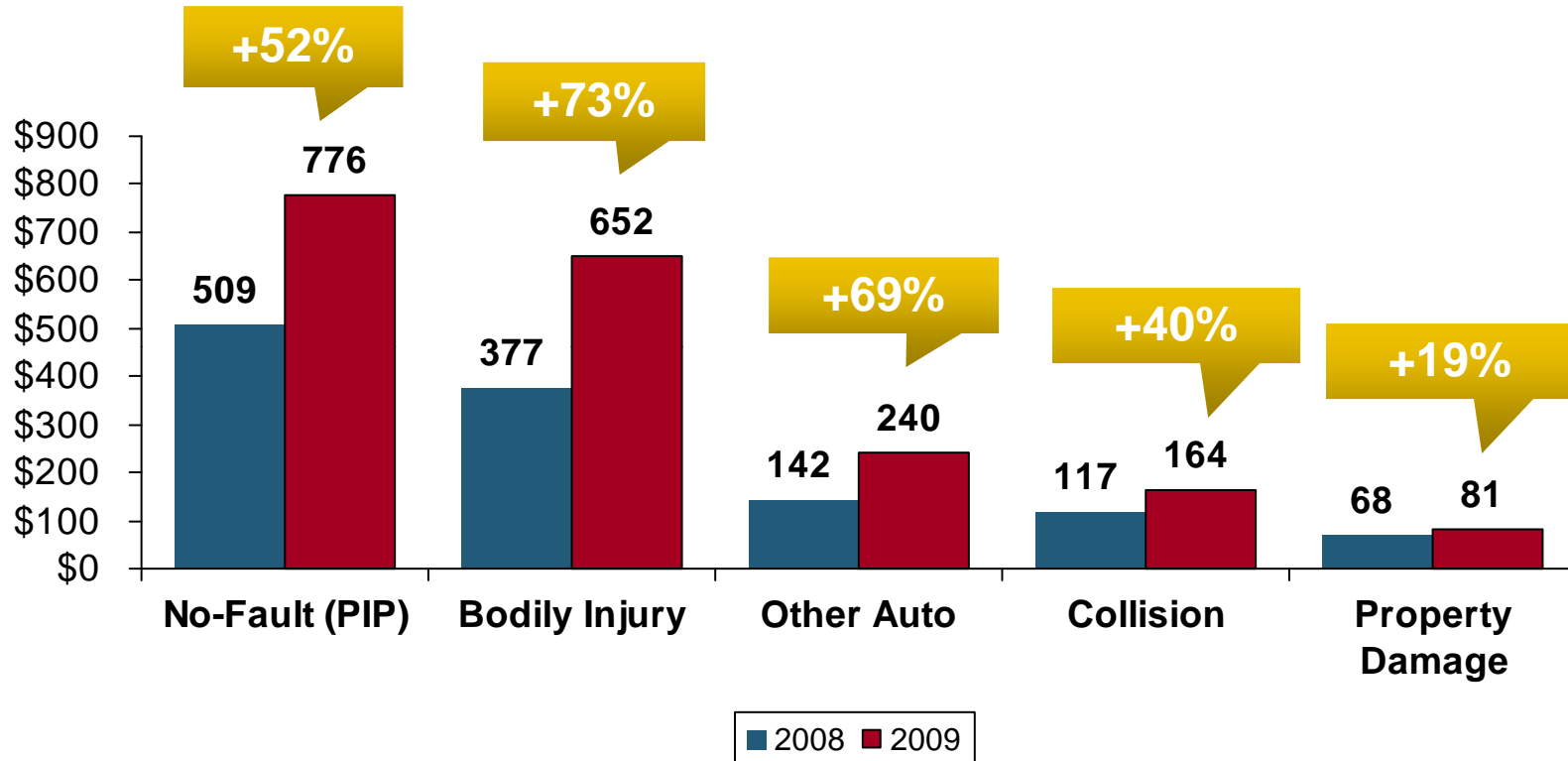
Florida Casualty Referrals for Fraud: 1st Half 2010 vs. 1st Half 2009

Percent Change



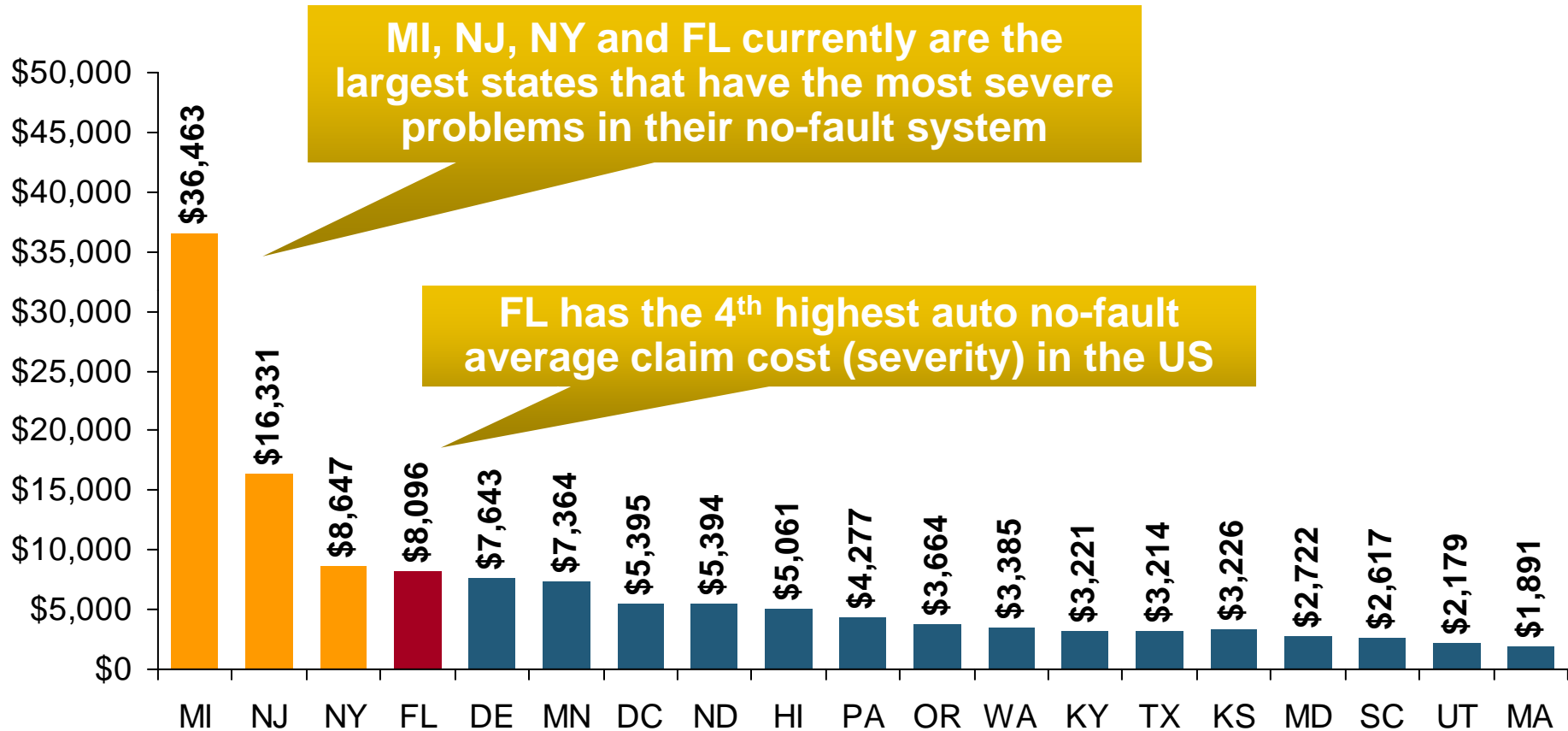
Questionable PIP claims involving staged accidents surged 52% in 2009. For 2010, early estimates suggest an even larger increase.

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



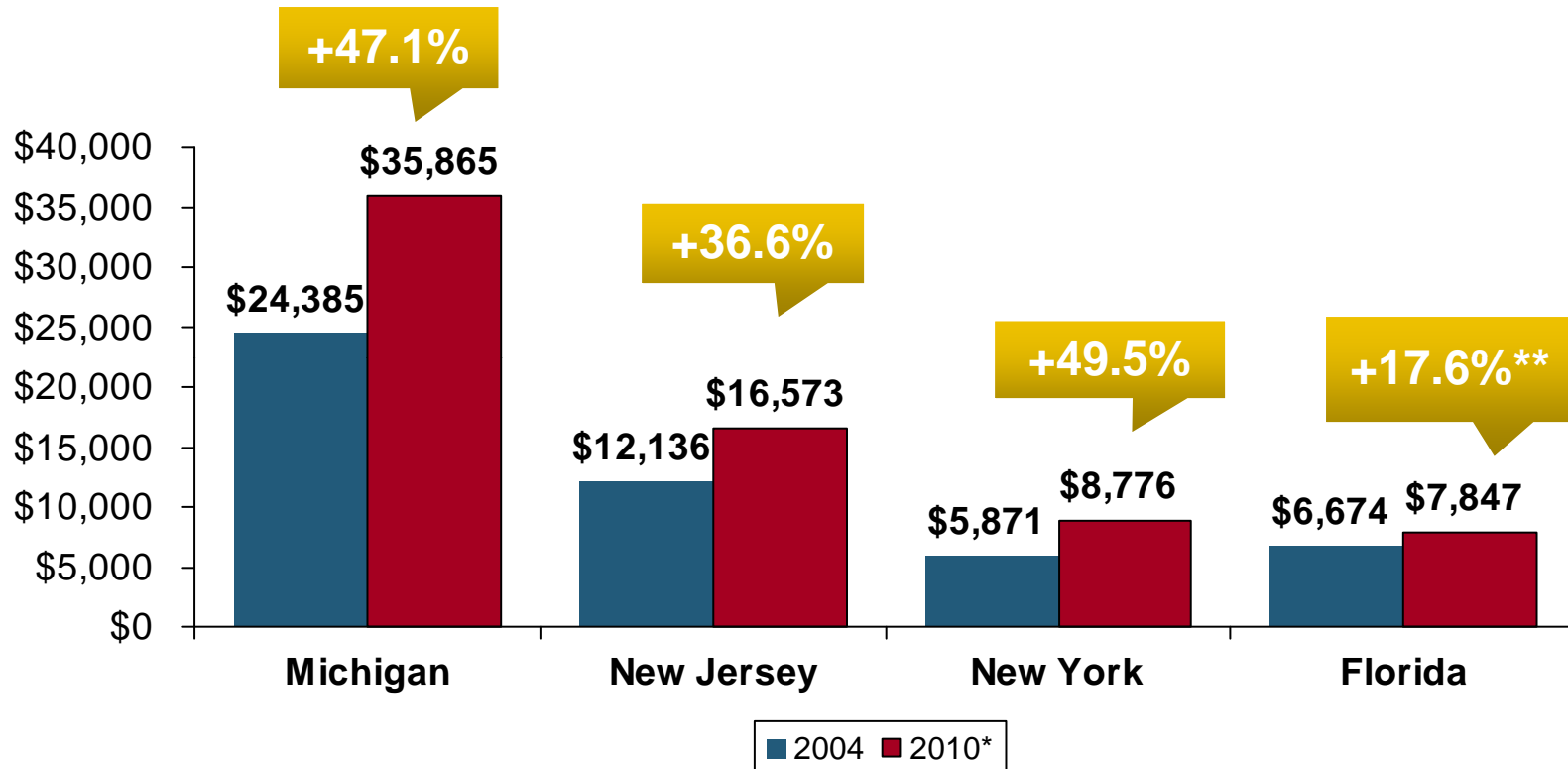
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Average No-Fault Claim Severity, 2010:Q3



Several States Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

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



The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

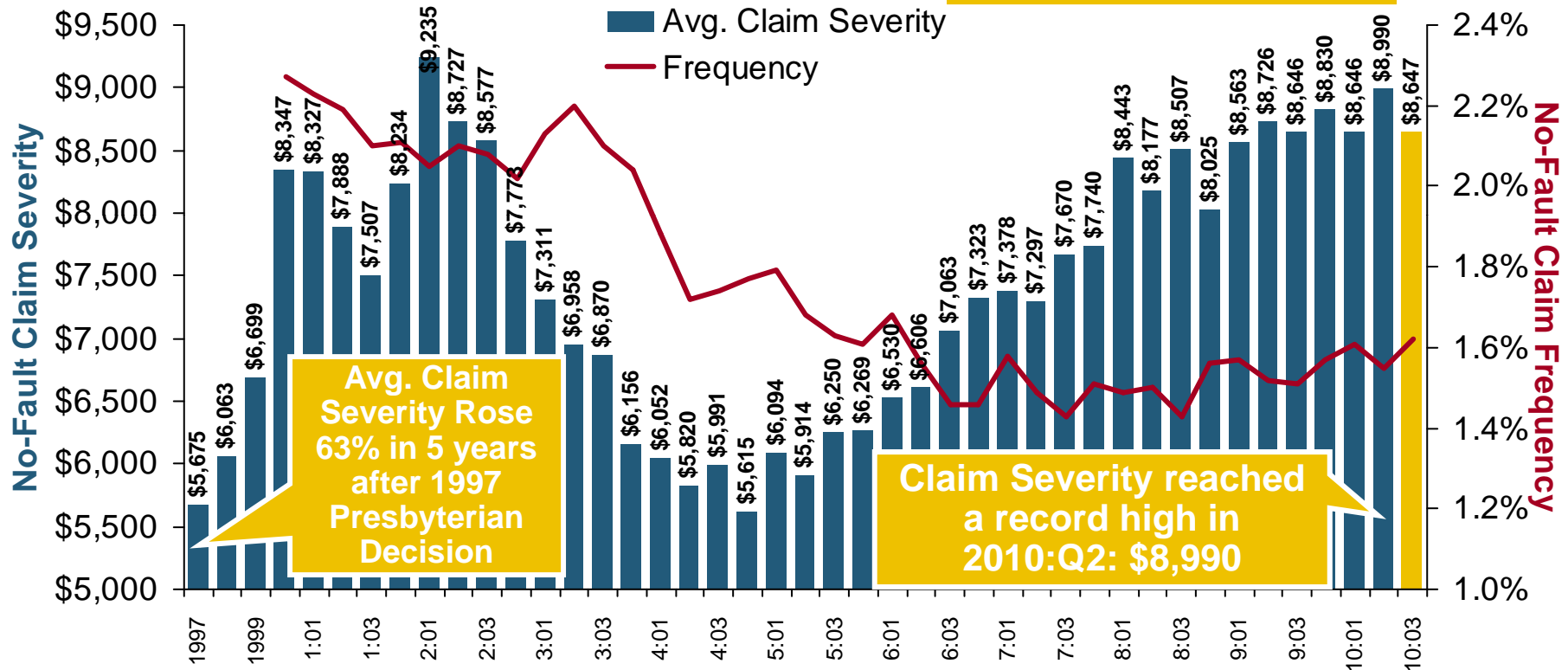
*2009 figure is for the 4 quarters ending 2010:Q3.

**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

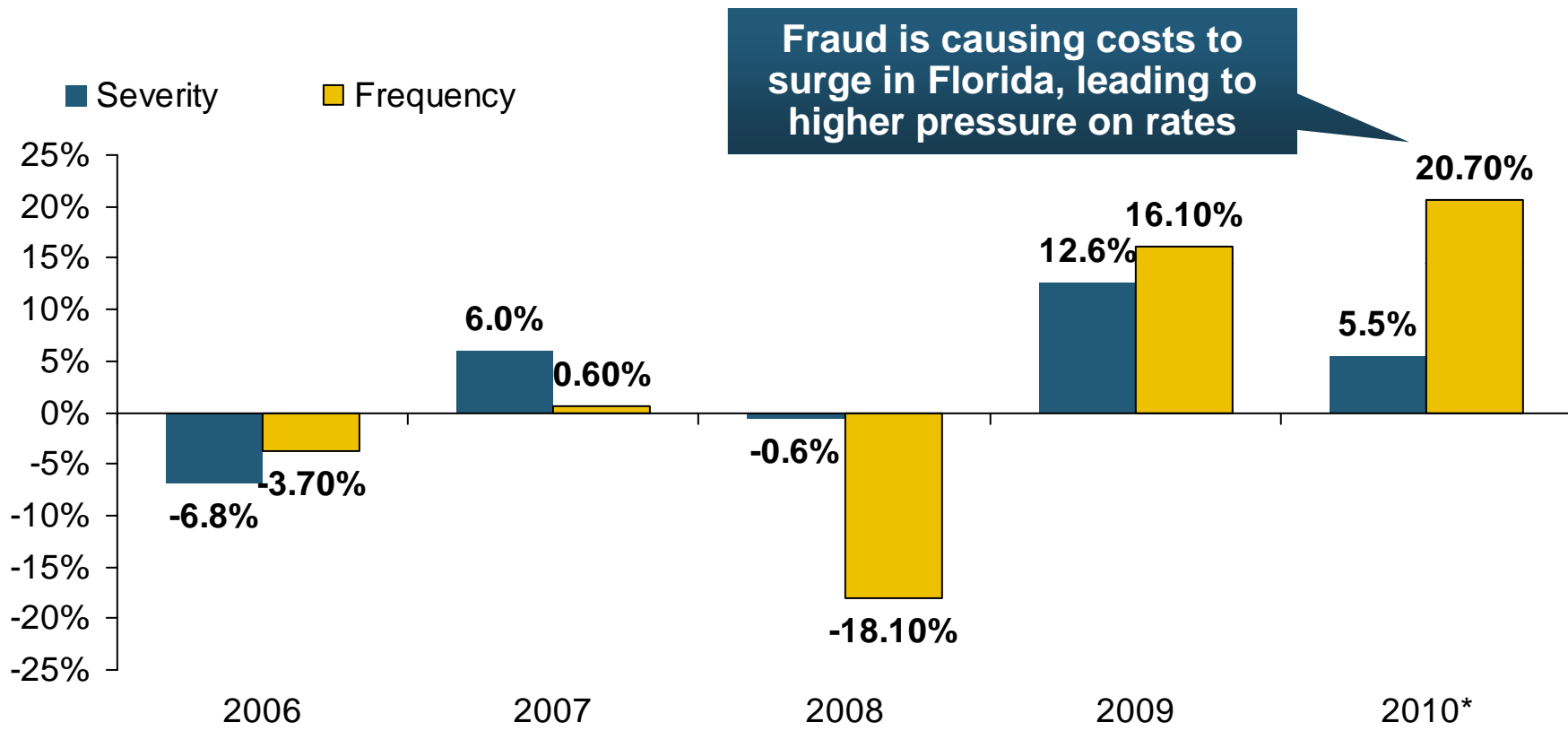


About 20% of No-Fault Claim Costs Are Attributable to Fraud and Abuse

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



Annual Change, 2006 through 2010*



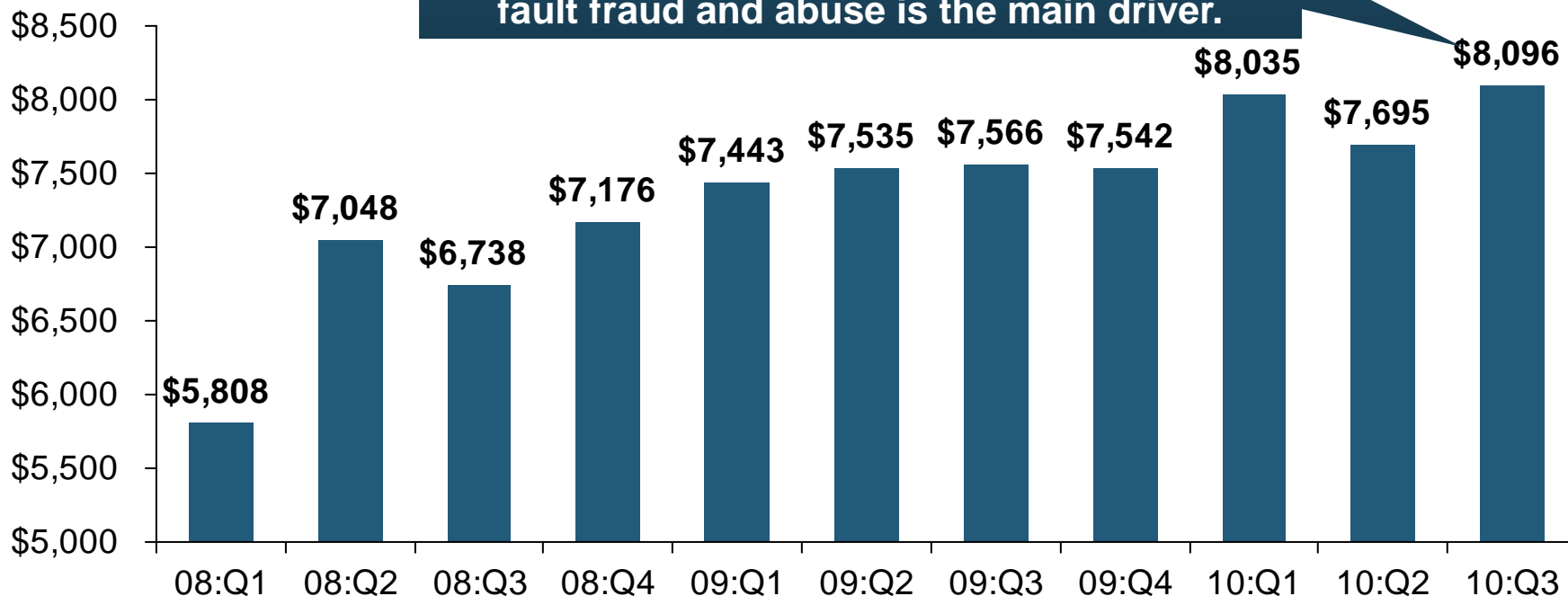
Both the Number and Average Cost of FL No-Fault Claims Are Rising Rapidly

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

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

2008:Q4 through 2010:Q3

No-Fault claim severity (average cost per claim) is up 39.4% between Q1 2008 and Q3 2010 to a record high \$8,096 per claim. No-fault fraud and abuse is the main driver.



The Average Cost of FL No-Fault Claims Is Rising Rapidly

*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

No-Fault claim frequency surged by 46.2% between Q2 2008 and Q3 2010. No-fault fraud and abuse is the only explanation



Both the Number and Average Cost of FL No-Fault Claims Are Rising Rapidly

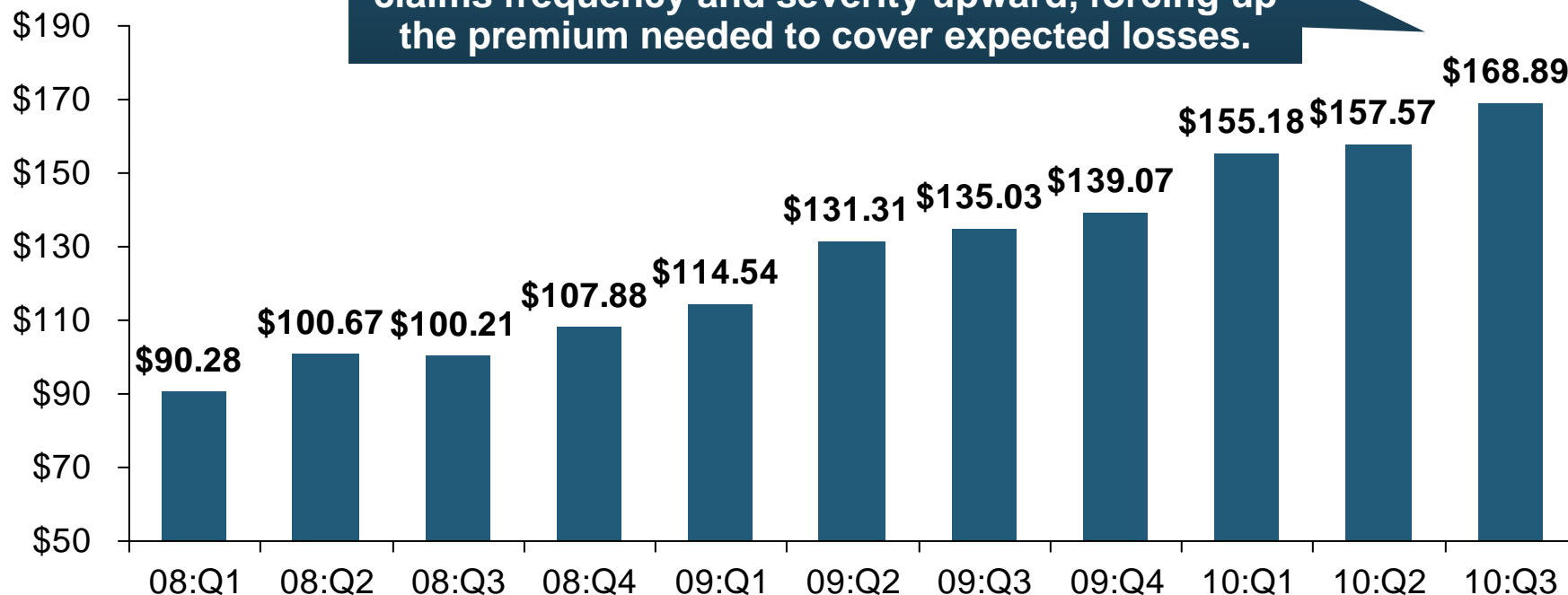
*Claim frequency is defined as the number of claims per 100 earned car years.

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

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

2008:Q4 through 2010:Q3**

The premium required to cover the expected cost of a no-fault claim soared by 87.1% between the beginning of 2008 and 2010:Q3. Fraud is driving claims frequency and severity upward, forcing up the premium needed to cover expected losses.



**Both the Number and Average Cost of FL No-Fault
Claims Are Rising Rapidly**

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

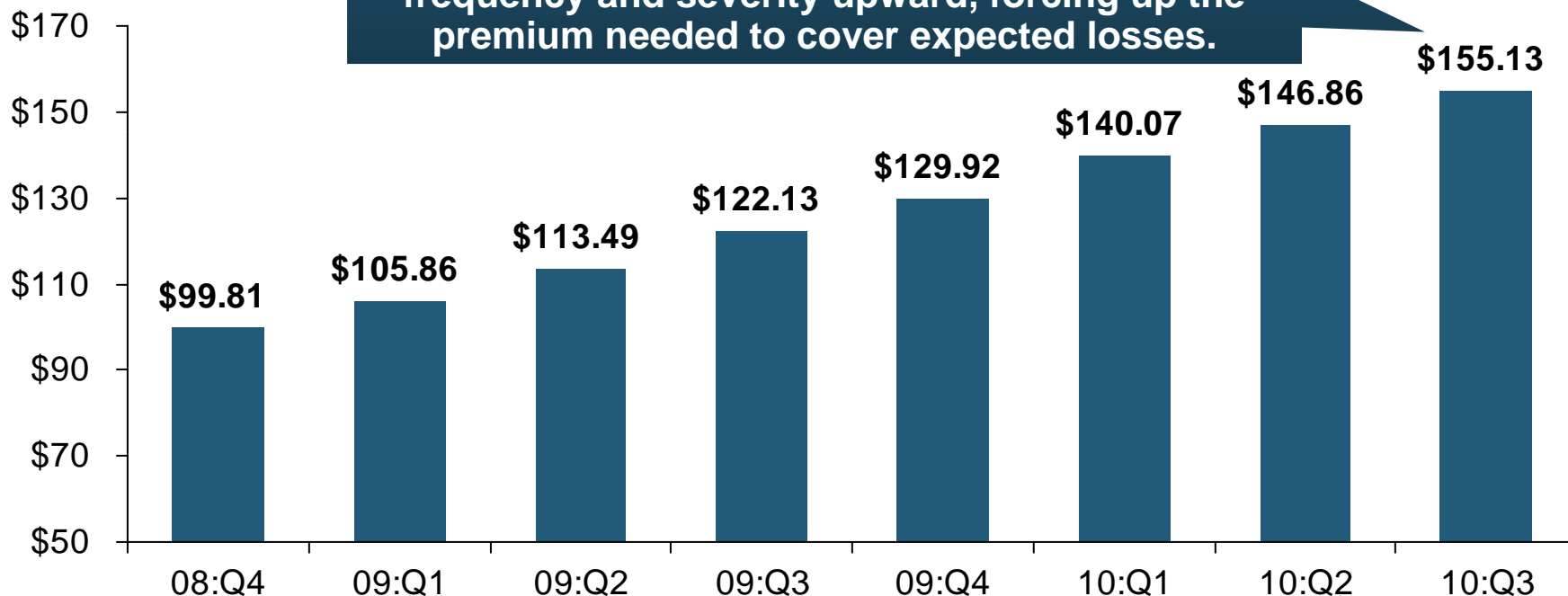
**Figures are for the 4 prior quarters ending in the period.

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

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

2008:Q4 through 2010:Q3**

The premium required to cover the expected cost of a no-fault claim soared by 55.4% between the end of 2008 and 2010:Q3. Fraud is driving claims frequency and severity upward, forcing up the premium needed to cover expected losses.



**Both the Number and Average Cost of FL No-Fault
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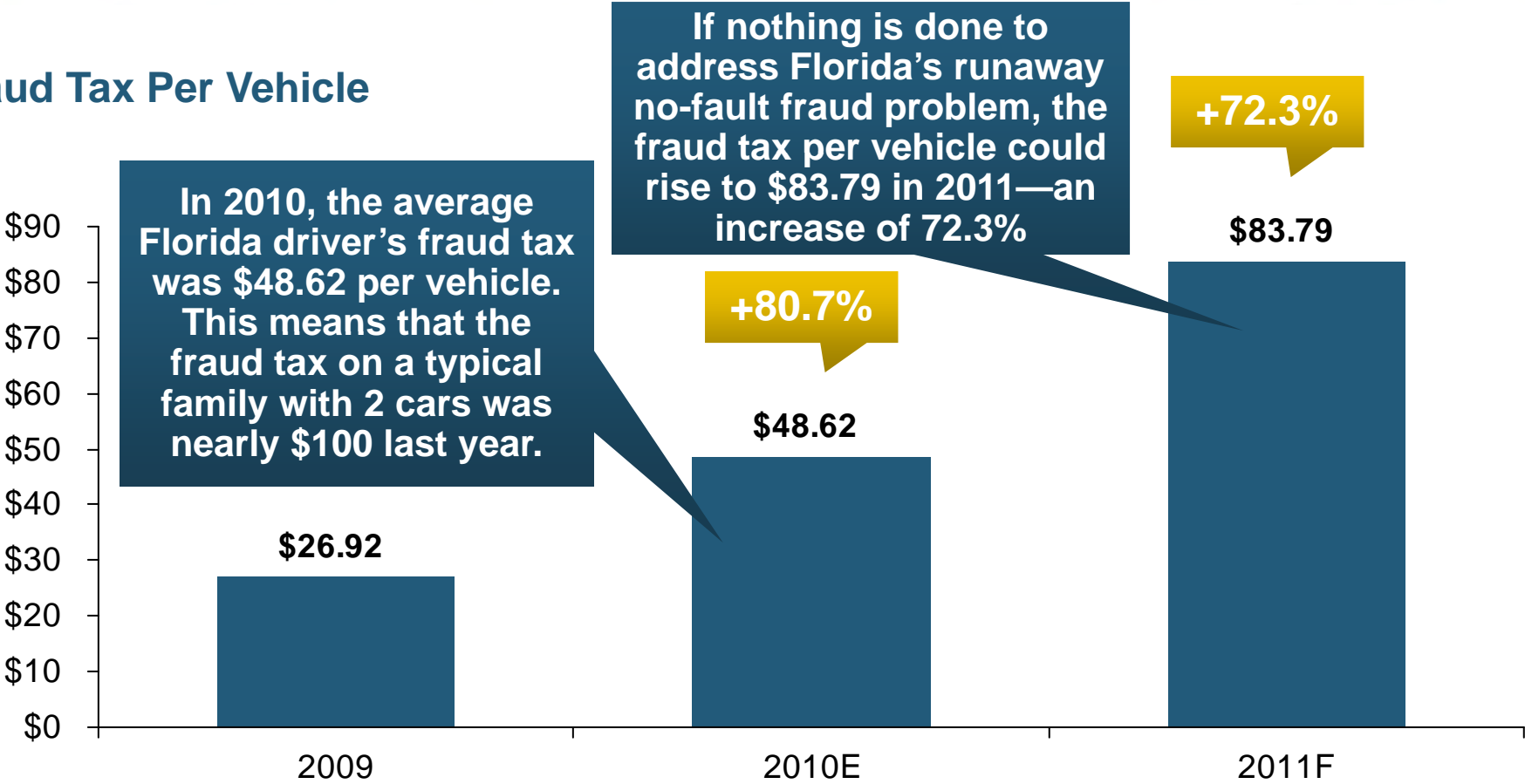
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Florida's No-Fault Fraud Tax: Estimated Cost per Insured Vehicle, 2009-2011F

Fraud Tax Per Vehicle

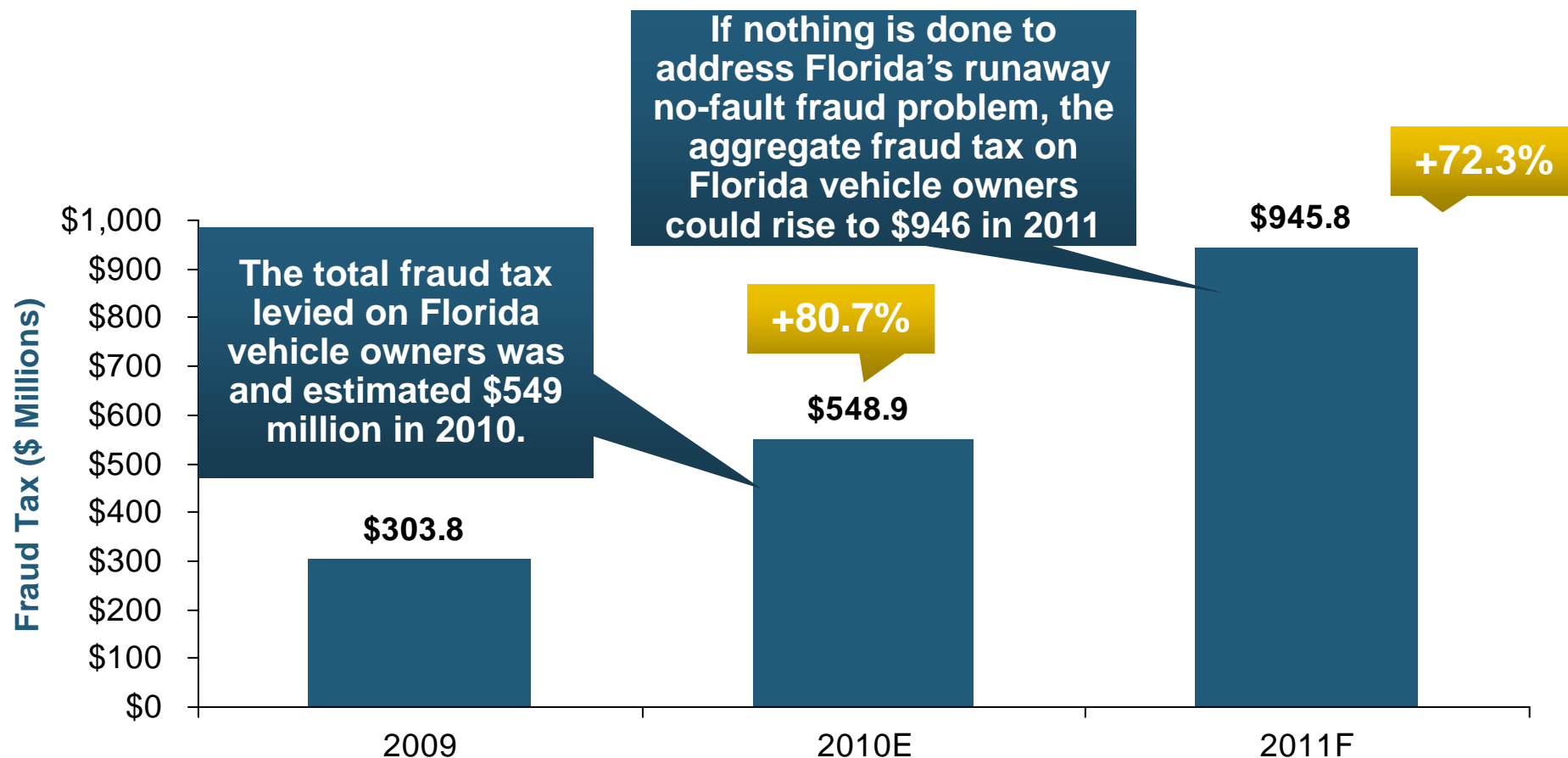


Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*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)



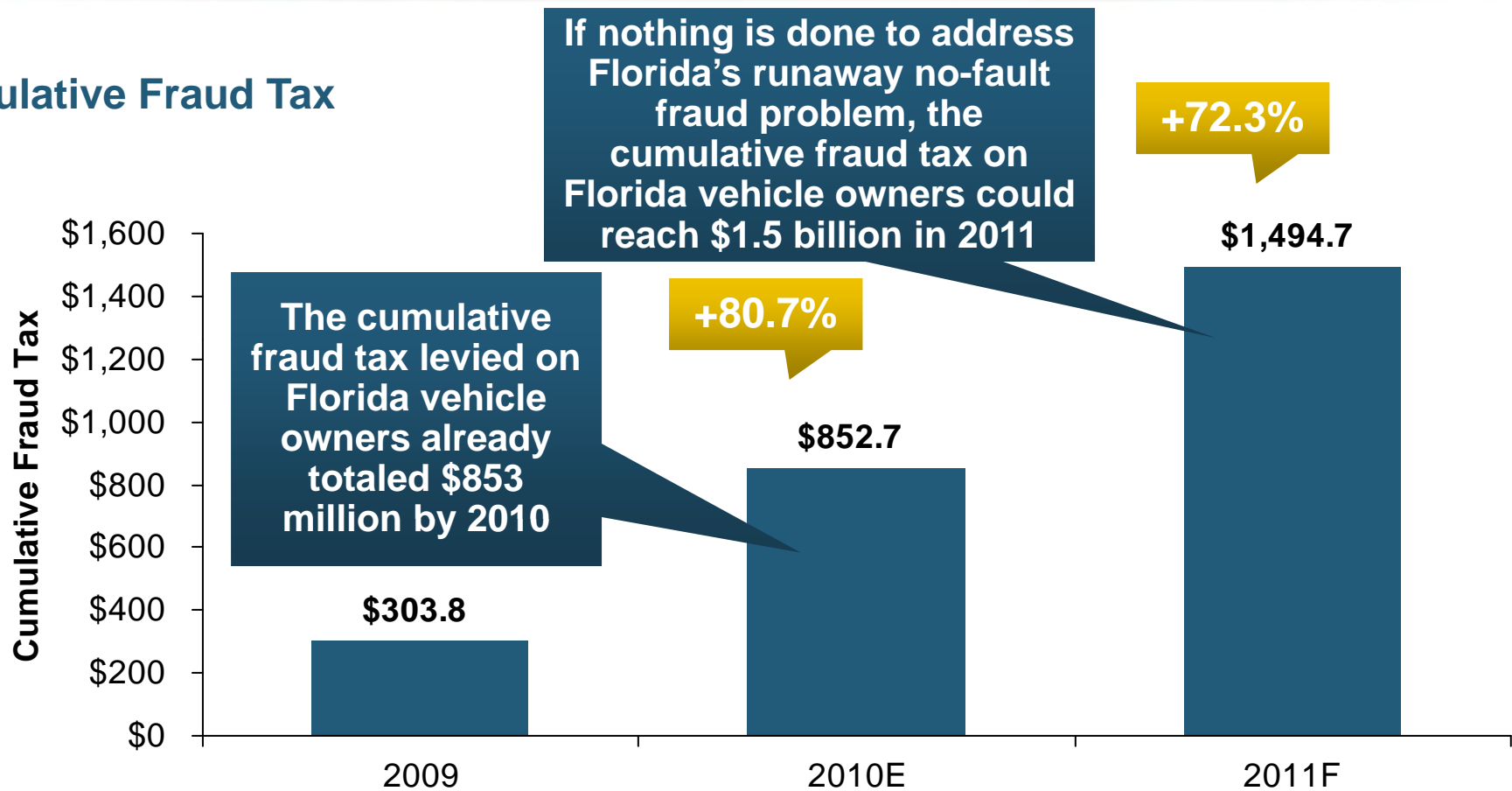
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Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

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

Cumulative Fraud Tax



Unscrupulous Medical Providers and Attorneys Could Cost Honest Florida Drivers Billions of Dollars

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

- 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.

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

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