

No-Fault Auto Insurance Fraud in New York State Trends, Challenges & Costs

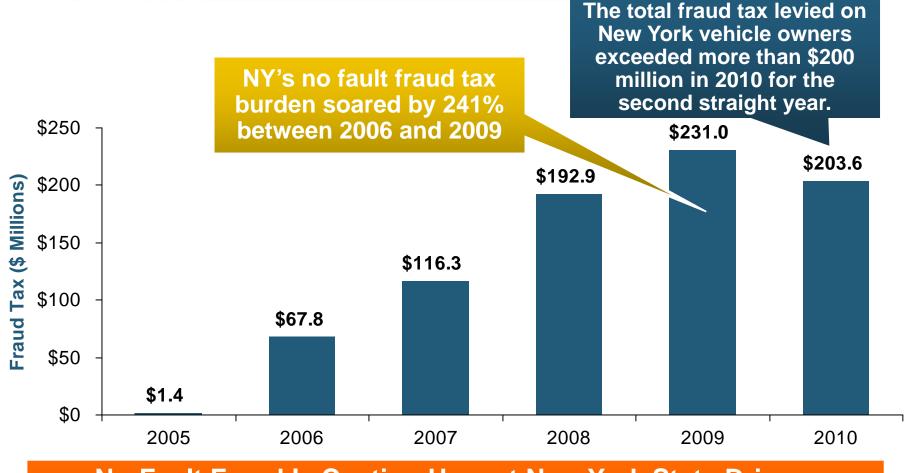
Hearing on No-Fault Auto Insurance New York State Senate Insurance Committee April 26, 2011

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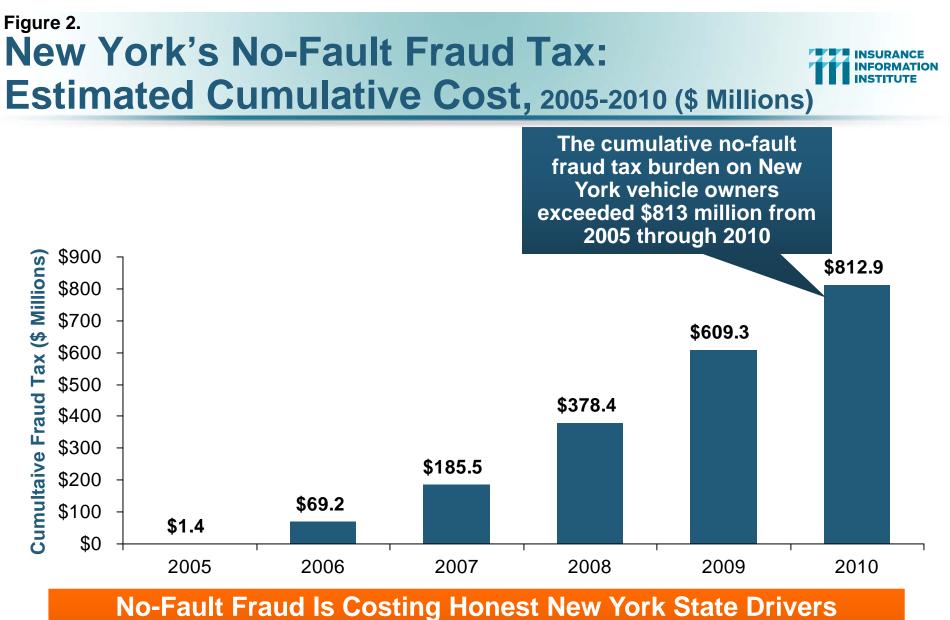
Figure 1. New York's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2005-2010 (\$ Millions)



No-Fault Fraud Is Costing Honest New York State Drivers Hundreds of Millions of Dollars

*2010 figure is based on data through Q4:2010.

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



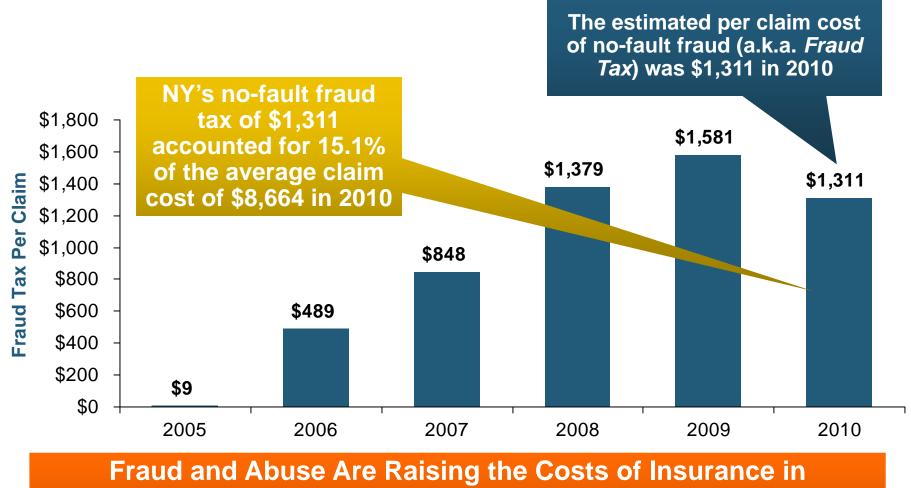
Hundreds of Millions of Dollars

*2010 figure is based on data through Q4:2010

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

Figure 3. Estimated Per Claim Cost of No-Fault Fraud in New York State, 2005-2010





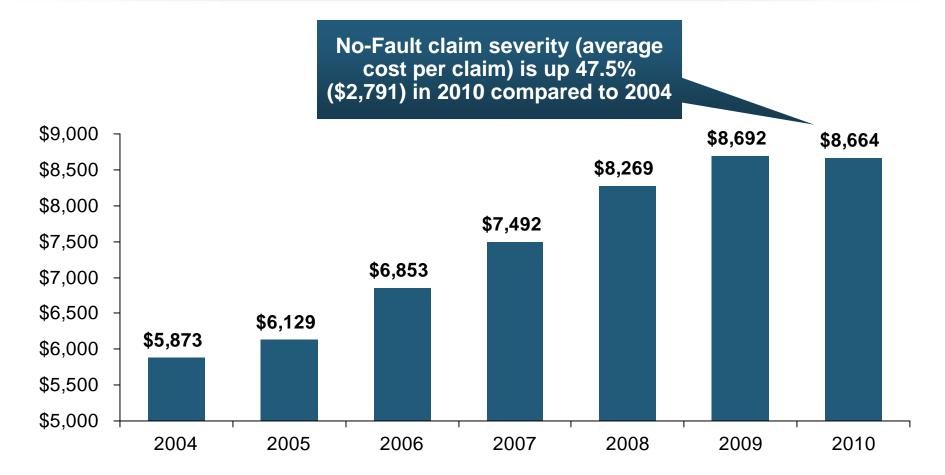
New York State

*2010 figure is based on data through Q4:2010.

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

Figure 4. NY No-Fault (PIP) Claim Severity Has Trended Up Sharply Upward, 2005-2010*



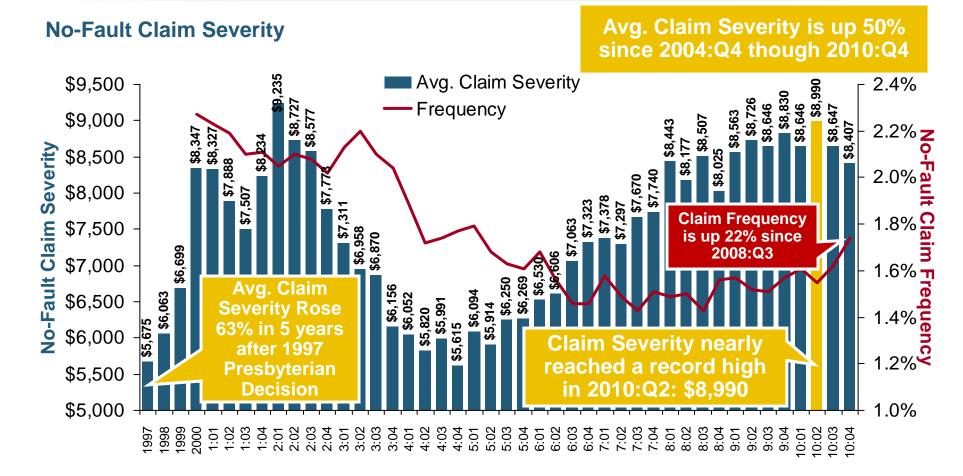


The Average Cost of New York No-Fault Claims Rose Rapidly in Recent Years

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

Figure 5. New York State No-Fault Claim Severity, 1997–2010:Q4

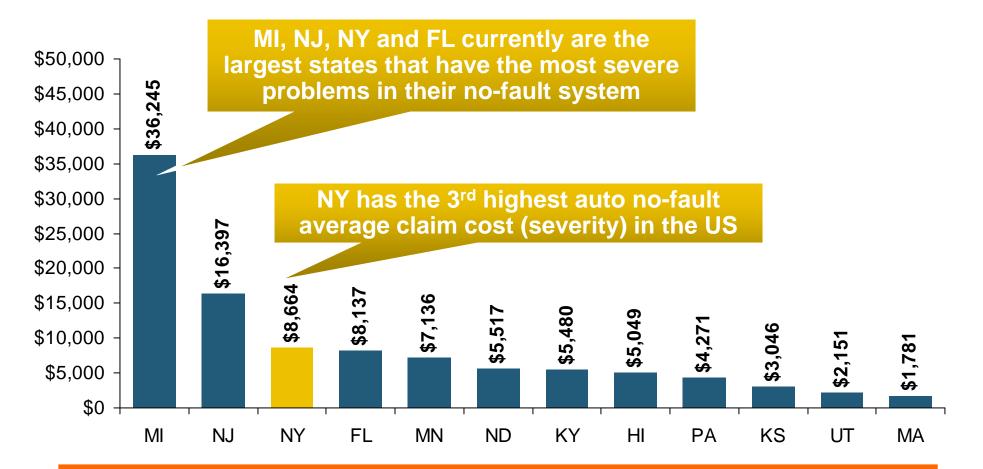
INSURANCE INFORMATION INSTITUTE



About 15% of No-Fault Claim Costs in 2010 Were Attributable to Fraud and Abuse

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

Figure 6. Average No-Fault Claim Severity, 2010*

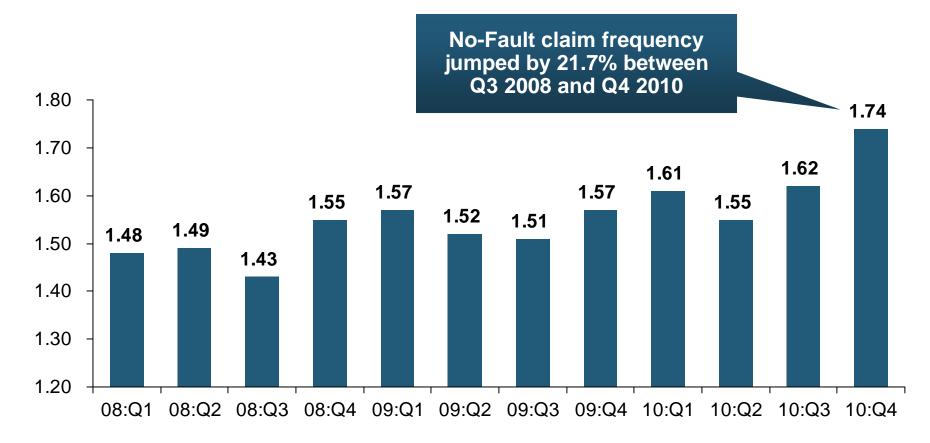


Several States Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

*Average of the four quarters ending 2010:Q4. Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

Figure 7. New York No-Fault (PIP) Claim Frequency INSURANCE Is Trending Sharply Upward*

2008:Q1 through 2010:Q4



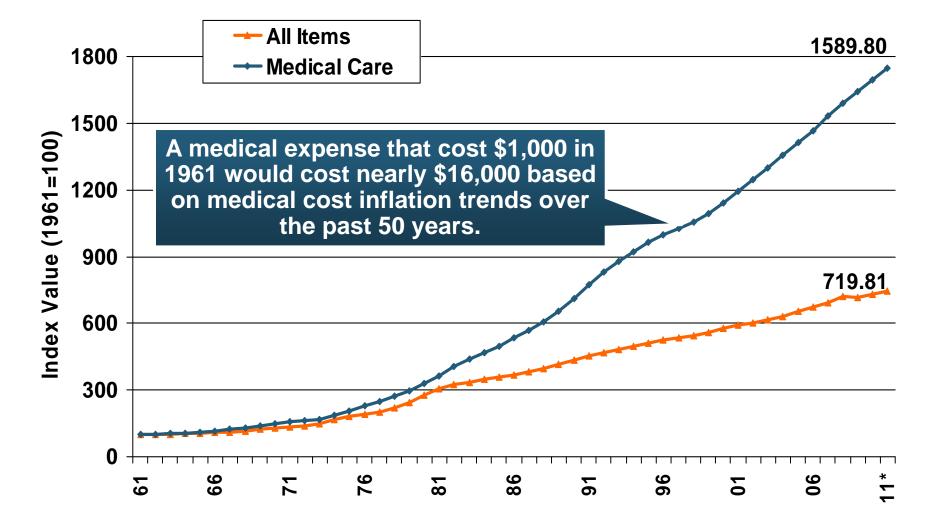
The Number and Average Cost of NY No-Fault Claims Have Been Generally Rising Since 2004

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

Figure 8.

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years





*Based on change from Feb. 2010 to Feb. 2011. Source: Department of Labor (Bureau of Labor Statistics)

Figure 9. **No-Fault Fraud Was Front Page News** a Decade Ago in 2001

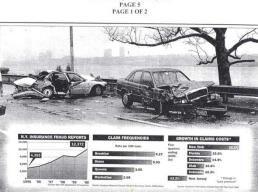




INSURANCE SKY-HIGH DAILY NEWS THURSDAY, MARCH 29, 2001 PAGE 2 OF 2 **Fraud** soaking drivers Doc scams have state insurance rates on road to No. 1 state between \$75 and \$115 a said Greg Serio, deputy su tendent of the state Insur limit, said Greg Serio, deputy su-perintendent of the state Insur-ance Department. "How do you review and track hundreds of tests and treatments six months after the fact, and do it in 30 other case, we found a w

Under state

had i Once the policy



DAILY NEWS

Figure 10.

Sparking Interest in Action...



DAILY NEWS FRIDAY, MARCH 30, 2001 PAGE 46

Slam brakes on auto scams

A s reported yesterday in the Daily News' front-page story, "Highway Robbery," auto insurance scams are adding \$1 billion a year to drivers' premiums in New York. That's an extra \$75 to \$115 on every auto policy in the state — no matter how good, and honest, a motorist you are. Unless there is legislative reform, these bogus claims will drive rates even higher. The state Senate has acted. Now it's up to the Assembly.

Last year, New York's claim costs jumped by 32%. In New Jersey long the butt of bad-driver jokes — they dropped by 12%, primarily because Trenton passed auto insurance reforms in 1998. Who's laughing now? While Jersey limits claims for certain exotic "medical" treatments, claimants in New York can milk insurance companies for such suspect treatments as aromatherapy and biofeedback. Because of this, the average bodily injury accident claim in New York is an astonishing 64% higher than in any other state.

The Brooklyn district attorney's office says Russian mobsters are behind many of the scams, setting up phony accidents and medical mills that rip off insurers. The gangs employ "runners" who recruit PAGE 30

NEW YORK POST

THURSDAY, MARCH 29, 2001

Driving NYers Mad

uto insurance is about to drive New Yorkers crazy. Or, maybe, out of state.

As The Post's Kenneth Lovett reported this week, New Yorkers are about to get socked with rate hikes as high as 26 percent. Already, the Empire State boasts the sec-

Already, the Empire State boasts the second-highest rates in the nation. But Albany, it seems, won't be happy until New York is No. 1. Why? Because lawmakers refuse to

clamp down on the abuses that drive up rates in the first place.

As Manhattan Institute Senior Fellow Steve Malanga outlines in detail on the previous page, an entire industry of scam artists — con men, disreputable doctors, unscrupulous lawyers — thrives in New York, bilking insurance carriers with fraudulent claims.

Insurers who pay those claims pass their costs right back to — you guessed it — New York motorists. Which sends premiums soaring.

And this kind of fraud is higher here

than in other states, thanks largely to New York's no-fault insurance laws.

And, of course, to lawmakers who prefer not to fix those laws, which would risk the loss of political donations from the doctors and lawyers who milk the system and

would be put out of business were it fixed. Indeed, reform would be a cinch, were lawmakers inclined to act.

For example: They could reduce the number of days claimants have to file claims, which now

> THE ECONOMIST JANUARY 27th, 2001 PAGE 73

The scent of a scam

NEW YORK

DRIVING in New York is war, casualties frequent. What better recovery for a car accident's unfortunate victim than to lie in a darkened room, inhaling the sweet smells of pungent lotions? And what better still than toget somebody else to pay for it?

In recent months, the claims department at a large property-casualty company has been getting a growing stream of claims for these services, known as aromatherapy. "It is a new, creative outlarly those around the neck, are notoriously hard to diagnose and repair with any precision. With great gaps in knowledge still remaining, medicine remains part-art. Do insurance companies really know where to draw the line between scam and need?

Suffice to say that they would like to try. What angers the insurers about the legal status of treatment in New York is that many claims must be paid, no questions asked. Far from being pre-approved, bills

Figure 11.

...And Urgent Calls for Reform



NEW YORK POST THURSDAY, FEBRUARY 28, 2001 **PAGE 31**

POSTOPINION

Coming To N.Y.: America's Costliest Car Insurance

EW York car owners are facing a stiff EW York car owners are facing a stiff hike in insurance premiums because of soaring fraud and a surge in pay-ments in accident cases. With other ments in accident cases. With other states enacting reforms to restrain the growth of lawsuits and cut down on in-surance scams, New York drivers will alsurance scalins, New York directs win ar-most certainly soon be paying the highest premiums in the country. And they've got lawyers, rip-off artists and legislators to thank for that. Here's why.

The state's no-fault law requires a driv-The state's no-fault law requires a driv-er's insurance company to pay the first \$50,000 in medical bills for an accident, regardless of who's at fault. But it's virtu-ally impossible for insurers to investigate fraudulent claims — because the law less drivers wait up to six months after an ac-cident to file medical claims. Seam artists are having a field day with the medicare and an gated day with

fake accidents, and payments from acci-dent claims are going through the roof in the state. Fake auto-insurance claims uncovered by regulators nearly tripled in New York to 12,372 last year, from 4,393

tute recently warned that New York is on the verge of surpassing New Jersey as the state with the nation's highest average auto-insurance premium. In 1998, the Garden State passed reforms that studies esa premium by more than \$200, to belo \$1,000. New York's average rate, mea

while, was about \$1110 in 1999, the last full year for which data are available, but is now clearly heading upward.

In the Empire State insurers can raise rates up to 7 percent without asking permi-

from the state Insurance Department. that could mean increases of more \$100 on premiums this year, especiall New York City, where the average

The Insurance Department has tried to put the breaks on fraud by adopting regu-lations to shorten the time required to file a medical claim, but trial lawyers su fully defeated the measure in court. The

mium is already close to \$2,000 a year.

NEW YORK POST THURSDAY, MARCH 29, 2001 PAGE 29 PAGE 1 OF 2

Albany's War

on Drivers Fraud's making car insurance soar but the Legislature won't crack down



HANKS to an epidemic of fraud, auto-insurance prices are soaring statewide. Prosecutors, regulators and insurance investigators say they know how to stop this fraud --but they need the help of Albany legislators in the form of ghar laws And Albany

is probably responsible for a tidal wave of personal-injury claims — especially in the five boroughs of New York City.

Nationally, personal-injury costs have risen 33 percent in five years — but in the Empire State costs rose by nearly double that rate.

When they have to pay out more in claims, insurers must raise premiums (or abandon the New York market altogether). Rates have been climbing for several years now, and will soar this year.

within 45 days of an accident that they have begun medical treatments and intend to seek reimbursement for the care.

Present law lets those making a claim wait 180 days, and many scam artists use the law to dump months of bills all at once on an insurer. Since the company must pay up within 30 days, that gives it little time to sort through and investigate a mountain of bills received all at once.

"If an insurance company can make a credible case that a claim is suspicious, then it should be

NEW YORK POST THURSDAY, MARCH 29, 2001 **PAGE 14**

No-fault drives up rates

By KENNETH LOVETT Post Correspondent

ALBANY - New York's no-fault ce system - considctor behind the state's saw payments for acis jump a nation-leadnt last year, the Post

> companies paid out o-fault medical claim, 419 in 1999, according lata set to be released nce tomorrow by the nformation Institute, roup.

percent above the avent nationally, said twig, the institute's nist.

The state's no-fault system pays up to \$50,000 for medical bills and lost wages due to automobile accidents, regardless of who is at fault.

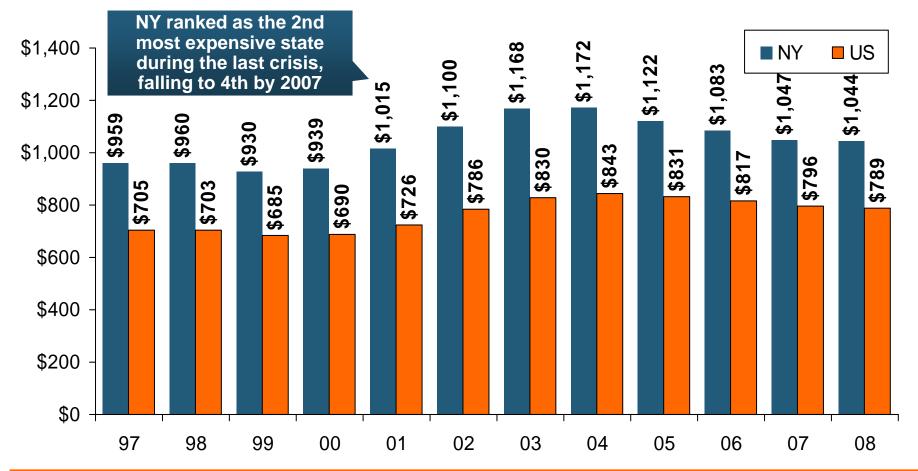
The frequency of claims and the number of no-fault fraud reports received by the state also were on the rise last year, according to the new numbers.

State officials and industry experts blame widespread and organized no-fault fraud and abuse as a major reason New York's overall auto insurance rates are the second highest in the nation, after New Jersey, and rising.

The Post reported earlier this week that rates for the 500,000 in the state assigned risk program are about to jump 18 percent.

Figure 12. Average Expenditure on Auto Insurance, NY State vs. US: 1997-2008*





In the wake of NY's first no-fault crisis, the average expenditure on auto insurance in NY state fell by \$128 or 10.9% between 2004 and 2008, much more than the 6.4% drop in the US overall.

*Latest available.

Source: National Association of Insurance Commissioners.



Insurance Information Institute Online:

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Thank you for your time and your attention! Twitter: twitter.com/bob_hartwig