No-Fault Auto Insurance Fraud in New York State

Trends, Challenges & Costs

Hearing on No-Fault Auto Insurance
New York State Senate Insurance Committee
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New York’s No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2005-2010 ($ Millions)

The total fraud tax levied on New York vehicle owners exceeded more than $200 million in 2010 for the second straight year.

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.
Figure 2.
New York’s No-Fault Fraud Tax: Estimated Cumulative Cost, 2005-2010 ($ Millions)

The cumulative no-fault fraud tax burden on New York vehicle owners exceeded $813 million from 2005 through 2010.

Cumulative Fraud Tax ($ Millions)

- 2005: $1.4
- 2006: $69.2
- 2007: $185.5
- 2008: $378.4
- 2009: $609.3
- 2010: $812.9

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*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

The estimated per claim cost of no-fault fraud (a.k.a. Fraud Tax) was $1,311 in 2010.

NY's no-fault fraud tax of $1,311 accounted for 15.1% of the average claim cost of $8,664 in 2010.

Fraud and Abuse Are Raising the Costs of Insurance in New York State.

*2010 figure is based on data through Q4:2010.
Source: Insurance Information Institute calculations and research from ISO/PCI data.
The Average Cost of New York No-Fault Claims Rose Rapidly in Recent Years
Figure 5.
New York State No-Fault Claim Severity, 1997–2010:Q4

No-Fault Claim Severity

Avg. Claim Severity is up 50% since 2004:Q4 though 2010:Q4

No-Fault Claim Frequency

Avg. Claim Severity is up 22% since 2008:Q3

Claim Severity nearly reached a record high in 2010:Q2: $8,990

Avg. Claim Severity Rose 63% in 5 years after 1997 Presbyterian Decision

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

Sources: ISO/PCI Fast Track data; Insurance Information Institute.
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.
New York No-Fault (PIP) Claim Frequency Is Trending Sharply Upward*

*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

A medical expense that cost $1,000 in 1961 would cost nearly $16,000 based on medical cost inflation trends over the past 50 years.

*Based on change from Feb. 2010 to Feb. 2011.
Source: Department of Labor (Bureau of Labor Statistics)
No-Fault Fraud Was Front Page News a Decade Ago in 2001
Slam brakes on auto scams

As 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 but 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 accident and fraud victims. "Tadla, a bill sponsored by state

Driving NYers Mad

Auto 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 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 these 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 scent of a scam

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 lotion? And what better still than to get 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 outlet..."
Figure 11.

...And Urgent Calls for Reform

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No-fault drives up rates

By KENNETH LOVETT
Post Correspondent

ALBANY — New York’s no-fault system — considered the nation’s best in reducing fraud — has driven up car insurance rates in the state.

The state’s no-fault system pays up to $80,000 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 $80,000 in the state assigned risk program are about to jump 18 percent.

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Albany’s War on Drivers

Fraud’s making car insurance soar — but the Legislature won’t crack down

BY STEVEN MALANGA

THANKS 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 stronger laws.

Albany is probably responsible for a tidal wave of personal-injury claims, according to a report released by the New York State Department of Aging.

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 been medical claims, the public must provide reimbursement for the care.

Percent law lets those making a claim wait 180 days, and many scam artists use the low 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
NY ranked as the 2nd most expensive state during the last crisis, falling to 4th by 2007.

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.
Thank you for your time and your attention!

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