News Release

Date: October 11, 2011

Contact: David Corum, CPCU
Phone: (484) 831-9046
E-mail: corum@TheInstitutes.org

Third-Party Bad-Faith Reforms Enacted in 2005 Reduced Auto Liability Coverage Costs by an Estimated $200 Million in the First Five Years According to a New Report From the Insurance Research Council

MALVERN, Penn.—Oct. 11, 2011—According to a new study from the Insurance Research Council (IRC), third-party bad-faith reforms adopted by the West Virginia State Legislature in 2005 were estimated to have reduced underlying insurance coverage costs by approximately $200 million in the five-year period after the reforms were enacted.

In 2005, the West Virginia State Legislature passed the Third-Party Bad-Faith Act (S.B. 418), eliminating the right of third-party insurance claimants to file lawsuits against another person's insurance company if the claimant believed the company treated them unfairly in the settlement of their claim. Instead of relying on the courts, claimants were provided an administrative process for filing complaints with the Commissioner of Insurance, who was then responsible for investigating complaints and imposing appropriate fines and penalties where it was determined that an insurer had violated the state's Unfair Trade Practices Act. The passage of S.B. 418 was widely viewed as a major accomplishment in efforts to improve West Virginia's litigation environment.

The IRC report, *The Impact of Third-Party Bad-Faith Reforms on Automobile Liability Insurance Costs in West Virginia*, estimates the impact of S.B. 418 on personal auto bodily injury (BI) liability claim costs. To assess the impact of S.B. 418, IRC calculated BI claim frequency and severity loss trends in West Virginia before and after the reforms were enacted. Frequency and severity trends during the five calendar years (2000-2004) before the year in which reforms were enacted (2005) were compared with trends during the five calendar years following enactment (2006-2010). These "before and after" trends in West Virginia were then compared with countrywide experience for the same coverage and for the same time periods. Using countrywide experience as a control, IRC attributed significant differences between West Virginia and countrywide experience to the reforms enacted in 2005.

As the accompanying chart shows, average BI liability paid losses per insured car in West Virginia fell significantly in the first three years following the adoption of S.B. 418. Loss costs then increased slightly in 2009, but fell again in 2010. For the period 2000-2004, BI liability loss costs in West Virginia were approximately 47 percent greater than loss costs countrywide. By 2010, however, West Virginia loss costs were only 7 percent greater than loss costs countrywide. Nearly all of the difference between West Virginia and countrywide experience was due to a moderation in the severity of West Virginia BI claims following the adoption of S.B. 418. As BI claim severity countrywide increased steadily during the period 2006-2010, West Virginia claim severity declined 8 percent.

"These findings suggest that the reforms enacted in 2005 had a major impact on the incentives insurers and claimants face in the claim settlement process," said Elizabeth Sprinkel, senior vice president of IRC. "This is important information for legislators to consider when contemplating similar reforms in other states."

For more detailed information on the study's methodology and findings, contact David Corum by phone at (484) 831-9046 or by e-mail at corum@TheInstitutes.org, or visit IRC's Web site at www.ircweb.org. Copies of the study are available at $140 each (printed copy) or $125 (PDF).

###

NOTE TO EDITORS: The Insurance Research Council (IRC) is a division of the American Institute For CPCU (The Institutes). The Institutes are an independent, nonprofit organization dedicated to providing educational programs, professional certification, and research for the property-casualty insurance business. IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.