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Contact: David Corum, CPCU
484-831-9046
Corum@TheInstitutes.org

Auto Insurance Affordability Problems Linked to Underlying Cost Drivers

MALVERN, Pa.—Medical utilization rates exceeding national norms are a major contributor to high claim costs in eight of the 12 least affordable auto insurance systems, according to a new report from the Insurance Research Council (IRC). In these eight states (Delaware, Florida, Kentucky, Michigan, Nevada, New Jersey, New York, and West Virginia), the percentage of auto injury insurance claimants who received diagnostic services, such as magnetic resonance imaging (MRI) and computed tomography (CT) scans, or were treated by specific types of providers, such as chiropractors and physical therapists, was higher than the countrywide average. In many cases, utilization rates were much higher than countrywide averages. Higher medical utilization rates lead to higher injury claim costs, which contribute to higher insurance coverage costs. Other significant cost drivers in the systems examined included high injury claim frequency rates, extensive attorney involvement and high rates of claim abuse.

Several of the cost drivers discussed in the report often accompany each other in the states where they are identified. For example, half of the states with high medical utilization rates also experience above-average rates of attorney involvement. Every state, however, was found to face its own unique mix of cost-drivers. For example, only two of the states examined (Florida and Louisiana) were found to have bad-faith litigation environments contributing to high costs and affordability problems.

“Utilization of medical services inconsistent with evidence-based standards and national norms has been a well-known problem in the general health care system. The findings presented in this report suggest that similar utilization patterns plague auto injury compensation systems in several states,” said Beth Sprinkel, senior vice president of the IRC. “Without effective action to address medical utilization issues in auto injury claims, high claim costs will continue to fuel affordability concerns.”

The IRC study, *Affordability in Auto Injury Insurance: Cost Drivers in Twelve Jurisdictions*, relied on data from the IRC’s auto injury closed claim database and the Fast Track Monitoring System to measure and compare injury claim outcomes and system performance in states where the cost of auto insurance, on average, is highest when compared with median household income. In these 12 jurisdictions, the cost of auto insurance is considered least affordable among all the states. However, in three of the states examined, below-average household income is a significant reason why auto insurance costs are less affordable than in other states.

For more detailed information on the study's methodology and findings, contact David Corum at IRC@TheInstitutes.org or by phone at (484) 831-9046. For more information about how to purchase the report, visit the IRC's website at www.insurance-research.org.

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NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute For Chartered Property Casualty Underwriters (The Institutes). The Institutes are the leader in delivering proven knowledge solutions that drive powerful business results for the risk management and property-casualty insurance industry. Institute knowledge solutions include the CPCU designation program; associate designation programs in areas such as claims, risk management, underwriting, and reinsurance; introductory and foundation programs; online courses; research; custom solutions; assessment tools; and continuing education (CE) courses for licensed insurance professionals and adjusters through its CEU business unit. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.

Auto Injury Claim Cost Drivers Identified in Twelve Jurisdictions

	<i>High Uninsured Motorist Rate</i>	<i>High Injury Claim Frequency</i>	<i>High Injury Claim Severity</i>	<i>High Utilization of Medical Services</i>	<i>High Attorney Involvement Rate</i>	<i>High Rate of Apparent Claim Abuse</i>	<i>Bad-Faith Legal Environment</i>
Delaware		X	X	X			
District of Columbia		X			X		
Florida		X		X	X	X	X
Kentucky	X			X			
Louisiana		X				X	X
Michigan			X	X			
Mississippi	X						
Nevada		X	X	X	X		
New Jersey			X	X	X		
New York		X		X	X	X	
Rhode Island		X			X		
West Virginia			X	X			

Source: Insurance Research Council