

Personal Injury Protection (PIP) in the State of Florida
Evaluation of Data Collected by the
Florida Office of Insurance Regulation (OIR)
In Response to April 2011 PIP Data Call

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This report provides an aggregate review of the data sources and quality used to develop the Florida Office of Insurance Regulation's (FLOIR) April 2011 *Report on Review of the 2011 Personal Injury Protection Data Call (Report)* and the FLOIR's August 2011 Cabinet Presentation – Personal Injury Protection (Cabinet Presentation). Findings contained herein are drawn from my understanding of the information supplied as of the date of this report. Any material inaccuracies and/or discrepancies discovered will be amended.

Scope

No attempt is made here to draw conclusions from the data but rather to clarify the sources, definitions and accuracy of the data as reported. Information included in this report is based on:

1. Reading the *Report* and Cabinet Presentation
2. Phone and email conversations with FLOIR staff during the September 19 – October 3, 2011 time frame
3. Review of Section 651.67 Florida Statutes pertinent to pricing of Personal Injury Protection (PIP) coverage within personal auto lines of business in Florida
4. Allstate, GEICO, Liberty Mutual, Progressive and State Farm Web-sites
5. Other outside sources cited

Summary

The FLOIR, in development of data for the *Report* and subsequent Cabinet Presentation, utilized several sources of data:

1. Responses to the formal PIP Data Call, which “requested data focused on PIP claims associated with policies bearing a Florida PIP endorsement” (FLOIR *Report*, p. 2) and covering the time span 2006-2010. The FLOIR reported 31 companies participated in the Data Call, 25 of which represent approximately 80% of the market share based on 2009 premiums reported to the National Association of Insurance Commissioners (NAIC). Data Call responses were used to review the frequency and severity of open and closed claims as well as the length of claim and PIP-related lawsuits.

2. NAIC Annual Financial Statement data. The NAIC is the primary data clearinghouse nationally for statutory reporting information submitted by insurance carriers to state regulators. NAIC data were used for premiums, losses, loss ratios and combined ratios.
3. Mitchell International Inc. (Mitchell) data. Mitchell is a claims processing, technology company that, according to FLOIR, has at least 62 insurance company clients.
4. Fast Track Monitoring System data. Fast Track includes data from three well-known sources: Insurance Services Office, Inc. (ISO), Independent Statistical Services, Inc. (ISS) and National Independent Statistical Services (NISS). Fast Track data were used for high-level claims frequency, severity and pure premium reporting.
5. Data from a single insurance group. In various places in the *Report* and Cabinet Presentation, a “single insurance group” or “one large, national carrier” is referred to as the source for a segment of the data. I have not discovered whether these multiple references in the *Report* and Cabinet Presentation are to the same insurer nor do I know which insurer(s) is being referenced.
6. Other data sources, such as The Florida Department of Health Division of Medical Quality Assurance Annual Report 2007-2010, the National Insurance Crime Bureau (NICB) and the Florida department of Financial Services Division of Fraud.

In summary, the data are imperfect in four key aspects:

1. Care must be taken in judging the data’s accuracy where it was based on voluntary information supplied by insurance carriers. It is in the long-term best interest of insurers to supply correct and “best” data available and it has been my experience that insurers generally attempt to do so in “good faith,” accuracy cannot be assumed.
2. A limited portion of the data included in the *Report* and Cabinet Presentation appeared to have been taken from the Data Call participant responses. The majority of the data reported appears to have come from a single, un-named insurance company source. Any attempt to generalize such data is flawed.
3. In some data areas (especially as pertains to premium quotes and loss information), the data are not ideally presented or defined. The meaning of a data point is crucial for interpretation of its business significance and for comparison to other data points.
4. None of the data were audited by the FLOIR but were taken as provided.

The balance of this report contains evaluation of specific areas of key data included in the FLOIR Report and/or Cabinet Presentation. In each section, I attempt to clarify the sources and interpretation of the data as it was presented by the FLOIR. In some sections, I additionally point out challenges with using the data.

Specific Data Areas of Interest within the Report and Cabinet Presentation

PIP Premiums

An appropriate place to begin an evaluation of the data results of the recent FLOIR Personal Injury Protection (PIP) Data Call is with the insurance premium data. It is the data most in controversy, and all other data in the Data Call relate back to their impact on premiums. Understanding the premium data results of the PIP Data Call requires an understanding of the data sources and definitions as well as the regulatory environment specific to Private Passenger Auto insurance and PIP coverage within the State of Florida. Accordingly, this section contains a review of the Florida law surrounding PIP insurance rates, recent premium trends as collected and reported by FLOIR and actual PIP premium quotes.

Florida Law Surrounding PIP Insurance Rates

The regulation of PIP rates within Florida is based primarily upon Florida Statutes related to Private Passenger Auto insurance generally. Regarding what is allowed to enter the calculation of Private Passenger Auto insurance rates (including PIP): Section 651.67 Florida Statutes provides the rules and guidelines for what is allowed. Based on my reading of it, the statute is broad with respect to allowing insurer loss experience to enter the ratings, with the exception of results of "bad faith" claims. The insurers DO NOT appear to be allowed to include, for instance, a court award or settlement for cases of insurer "bath faith" in claims payment. Keep in mind if an insurer loses a case that is never legally referred to as a "bad faith" case, then, arguably, it would not be part of this exception in the statute. Regarding specifically what can go into PIP rates, separate from other Private Passenger Auto insurance coverages, PIP rates can include any of the insurer's PIP loss experience and loss-related expenses, including both plaintiff and defense attorney fees.

Recent Rate and Premium Trends

The *Report* included cumulative rate changes effective for new business since January 1, 2009 for the top five Florida auto insurers (including Allstate, GEICO General, Progressive American, Progressive Select and State Farm Mutual, based on their respective FL Private Passenger Auto insurance market share). The numbers were based on data submitted by the companies in the Rate Collection System as of August 1, 2011. Regarding whether these rate changes reflect "filings implemented" or "filings implemented AND approved," a representative of the FLOIR stated via phone that the rate changes include "filings implemented" even if they were still pending approval as of the time of the PIP Data Call and subsequent report. Two of the five insurers had implemented rate changes that were still pending approval (a common and allowable practice) at the time. Namely, the two Progressive companies had implemented two filings each that were still pending approval (for a total of four "filings implemented and pending approval"). One of the two Progressives still had one filing pending approval as of September

28, 2011. All of the other rate filings included in the report were either at the time or subsequent to the report approved by the FLOIR.

It is important to note when looking at PIP rate changes in comparison to rate changes for other policy coverages that PIP coverage in Florida, if priced at the mandatory \$10k coverage level, is a relatively small dollar component of the overall Private Passenger Auto insurance rate (and subsequent premium). As a result, a \$1 increase in the PIP rate represents a greater % increase in the PIP rate than a \$1 increase represents percentage wise in the BI rate. Therefore, any direct comparison of rate changes in one coverage part to rate changes in another coverage part is imperfect.

The *Report* showed annual PIP premium trends for specific areas/regions of Florida. It is important to note the data source is limited to one large, national (un-named) carrier and thus these data are not generalizable to other carriers doing Private Passenger Auto insurance business in Florida.

Current Premium Quotes

The FLOIR produced actual six-month PIP quotes for selected zip codes in the top five PIP states (FL, MI, NJ, NY and PA as defined by 2010 direct premium written) by using the online quoting system of an un-named, large, national insurance carrier. For purposes of comparison among differing coverage limits from state to state, each premium amount quoted was divided into the cost of PIP premium per \$1,000 in coverage for minimum policy allowed by state. The premium data, as obtained, converted and compared, are inherently problematic.

The minimum PIP coverage is \$10,000 in Florida, unlimited in Michigan (FLOIR used \$50,000 as the desired limit), \$50,000 in New York and \$15,000 in New Jersey (although the standard PIP coverage in NJ is \$250,000). The differing minimums create a challenge when trying to compare quotes – it is possible for prices to differ based wholly on coverage differences since the amount of insurance purchased directly impacts the benefits expected to be paid (i.e., the cost of providing the coverage). Seemingly to adjust for the price effect of these differences in amounts of insurance purchased, the FLOIR chose to compare quotes on a per-\$1k-limit-coverage basis. This method for converting to a common-size comparison, however, does not eliminate the issue of apples-to-oranges comparison; instead it exacerbates the problem.

The FLOIR presumably converted actual quoted premium amounts to per-\$1k premium amounts by simple division and so derived an un-weighted average price per \$1k coverage (e.g., \$400 for \$10k coverage converted to \$40 for \$1k coverage). This is problematic for at least two reasons.

1. An insurer's selling expenses are not going to differ much (in actual dollars) whether selling \$10k coverage or \$50k coverage so I expect expenses for \$10k coverage to constitute a higher portion of the total quoted premium than for \$50k coverage. Thus, regardless of whether a higher-risk policy, **smaller coverage amounts are relatively**

more expensive to sell (and buy) than larger coverage amounts. Florida PIP coverage, with its relatively low \$10k minimum limit, is more expensive on a per-\$1k-coverage basis than PIP coverage in other states that have higher mandatory minimum coverage amounts, regardless of whether claims (benefits) paid per \$1k coverage in Florida are higher than in other states.

2. The average (or median) benefits paid may not differ much between a \$10k PIP coverage and a \$50k coverage. Typically, the likelihood of small PIP claims (and benefits) is substantially higher than that of large claims (benefits). Therefore, the lowest amounts of coverage are the most likely to be “hit” by claims (benefits). This weighted probability distribution of claims means that **most of the risk-based (actuarial) pricing in the PIP premium calculation is based on numerous small losses.** Florida PIP coverage, with its relatively low \$10k minimum limit, likely experiences more loss costs on a per-\$1k-coverage basis than PIP coverage in other states that have higher mandatory minimum coverage amounts. We do not know whether Florida PIP would experience more loss costs if the mandatory PIP limits were equal to those of other states.

Setting aside the premium comparison problems mentioned above, I attempted to obtain online quotes from several national carriers – Allstate, GEICO, Liberty Mutual, Progressive, State Farm and 21st Century. Using the same insured profile as the OIR stated that it used – a 25-year-old single female with no accidents/violations in last 5 years and less than 1 year with current insurer who takes the minimum or standard PIP coverage and minimum BI coverage – I submitted quote requests on each of the four company’s web sites. The Allstate, GEICO, State Farm and 21st Century web sites could not complete quotes for the profile I submitted. Both Progressive and Liberty Mutual did provide quotes.

Table 1 displays quotes for PIP coverage (as part of a larger Private Passenger Auto policy) at minimum limits with \$0 PIP deductible (with the exception of Progressive quotes in MI and NJ, where results are shown using a \$500 deductible since a \$0 deductible choice was not available).

Table 1. PIP Premium Online Quotes per \$1K Limit for Policy Effective Date 10/31/2011

Location Company	<u>Progressive</u>	<u>Liberty Mutual*</u>	<u>FLOIR Reported**</u>
32303 - Tallahassee, FL	13.56	8.15	17
33012 - Hialeah, FL	60.64	21.3	85
33186 - Miami, FL	37.85	21.6	52
33647 - Tampa, FL	26.2	21.8	36
48180 - Taylor, MI	6.66***	3.33	12
48228 - Detroit, MI	9.84***	6.22	19
08701 - Lakewood, NJ	17.53***	24.7	24
11226 - Brooklyn, NY	20.88	15.74	26

*Liberty Mutual online provided 12-month policy quotes. For simplicity, the conversion to 6-month policy quotes was made by halving the actual Liberty Mutual premium quoted.

**Un-named company source reported in PIP Data Call Report. Assumed \$0 deductible.

***Progressive did not provide quotes for \$0 deductible PIP coverage for this location. Premium is based on \$500 deductible choice.

The Progressive and Liberty Mutual premium quotes vary considerably from one another regardless of zip code, with Liberty Mutual quotes coming in consistently lower. Both companies quote premiums that are below those reported by the FLOIR and obtained from an un-named company source. While Progressive and the FLOIR data source quote the highest premiums for the Hialeah, Miami and Tampa zip codes, Liberty Mutual's highest quote is for the Lakewood, NJ zip code followed by the Hialeah, Miami and Tampa zip codes. Interestingly, the New Jersey minimum PIP limit is nearly as low as Florida's at \$15k, and so is likely to appear relatively higher than larger limit policies on a per-\$1k-unit basis much like Florida premiums do for reasons already discussed.

Keeping in mind the limitations of looking at premium-per-\$1k-unit coverage mentioned previously, I also compared actual total quotes (without converting to a per-unit-coverage basis). Table 2 shows the actual premium quotes provided by the various companies, regardless of coverage limits requested. Quotes for "FLOIR Reported" column were calculated by converting the premium-per-\$1k coverage to total premium, using the minimum coverage amount allowed within that state – \$10,000 in Florida; \$15,000 in New Jersey; \$50,000 in both Michigan and New York. The \$50,000 assumed for Michigan was based on the FLOIR's statement that it used \$50,000 for Michigan.

Table 2. PIP Premium Online Quotes for Policy Effective Date 10/31/2011

Location Company	<u>Progressive</u>	<u>Liberty Mutual*</u>	<u>FLOIR Reported**</u>
32303 - Tallahassee, FL	135.55	81.5	170
33012 - Hialeah, FL	606.41	213	850
33186 - Miami, FL	378.52	216	520
33647 - Tampa, FL	262.04	218	360
48180 - Taylor, MI	333***	166.5	600
48228 - Detroit, MI	492***	311	950
08701 - Lakewood, NJ	263***	370.5	360
11226 - Brooklyn, NY	1044	787	1300

*Liberty Mutual online provided 12-month policy quotes. For simplicity, the conversion to 6-month policy quotes was made by halving the actual Liberty Mutual premium quoted.

**Un-named company source reported in PIP Data Call Report. Assumed \$0 deductible.

***Progressive did not provide quotes for \$0 deductible PIP coverage for this location. Premium is based on \$500 deductible choice.

All three company sources yield the highest premium quotes in the selected Brooklyn, NJ zip code (11226). Beyond this initial similarity in quotes, however, the company quotes vary considerably across zip codes. All three companies differ, for instance, in which zip code ranks with the second highest premium quote: Progressive’s second highest is the Hialeah, FL zip code while the Lakewood, NJ zip code comes in second highest for Liberty Mutual, and the OIR data source quotes the Detroit, MI zip code second highest.

PIP Claims Summary and Impact on Actuarial Pricing

The *Report* includes summary claims information for all FL PIP policies based on data taken from the national Fast Track Monitoring System. Three statistical agencies – Independent Statistical Service, Inc. (ISS), Insurance Services Office, Inc. (ISO) and National Independent Statistical Service (NISS) – collect data on a voluntary basis from insurance carriers. The data included were stated to represent approximately 70% of the nationwide personal auto premium. The FLOIR reported on claims frequency, severity and the pure (actuarially-fair) premiums for PIP in Florida using this data.

Claims Frequency and Severity

In the *Report*, The FLOIR defined PIP claims frequency as the number of paid claims per 100 vehicles and PIP claims severity as the average cost per claim, excluding all expenses (even those that are loss related). At least two flaws appear to exist in the severity data as reported. The FLOIR did not adjust for time value of money differences between fourth quarter 2005 and third quarter 2010, which is likely to inflate the claims severity increase. Furthermore, it is unclear whether the FLOIR definition of severity (costs) in its PIP Data Call report refers to losses

incurred or paid. Losses may be recorded and considered incurred before they are paid, and in fact some incurred losses are never paid. Thus the difference between “incurred” and “paid” can be both significant and meaningful in looking at loss patterns over time.

Actuarially-fair Pricing (Pure Premium)

The FLOIR defined PIP pure premiums as the average premium per earned car year needed to cover the expected losses (all expenses excluded) for that earned car year. The abovementioned problems with measurement of claims severity continue through to measurement of the pure premium since pure premium is calculated using the claims severity figures.

Insurer Annual Statement Data

The *Report* included data taken from the Annual Statutory Financial Statements submitted by insurers licensed to write PIP in Florida. Premiums, losses, loss ratios, expenses and combined ratios were discussed as related to Florida PIP experience. Interpreting these numbers is straightforward but it should be noted that the numbers taken from Annual Statement filings for report by the FLOIR are on an incurred, rather than a paid, basis. Increases from 2009 to 2010, in particular, should be considered preliminary until 2010 losses and expenses are largely paid for reasons given above in relationship to claims severity. The issue of “incurred versus paid” runs through the entire section of the *Report* that was devoted to data taken from insurer NAIC financial statements.

The Cabinet Presentation included a graph comparing the pure direct loss ratios for PIP coverage of the top five PIP states (FL, MI, NJ, NY and PA) over the time period 2001-2010. Since the pure loss ratio represents the proportion of premiums needed to just pay losses, the challenge in making interpretation of the loss ratios relates again to the use of incurred losses. If the final losses for a given year were not reported, then the final loss ratio could not be calculated.

The *Report* discussed data related to expenses as well as to premiums and losses. The expense data may have been reported on an accrual, as well as incurred, basis. Similar to the other financial statement data, it does not directly represent expenses actually paid.

The combined ratio reflects the overall underwriting performance (profitability or loss) of an insurer as it is the sum of the loss + loss adjustment expense ratio and the expense ratio. This data contains a continuation of the incurred losses problem mentioned above.

PIP Claims Detailed Data

All or most of the thirty-one companies participating in the PIP Data Call likely provided detailed claims information although the *Report* did not explicitly say so. The data provided directed by Data Call respondents appears to be limited to reporting on claims frequency (number of claims) and severity (benefits paid), categorized as open or closed. Aggregate data

regarding provider charges per claim were supplied by Mitchell and detailed provider charge data were supplied by a single insurance company source (who did not use Mitchell as a clearinghouse).

Claims, Opened or Recorded and Closed

The claim data were based on the date the claim was opened or recorded in the company's claim system. According to the results of the Data Call, the total number of PIP claims opened or recorded included all reported claims, regardless of whether they were subsequently closed without payment. The figures included pre-suit demands as well as claims that resulted in lawsuits against the policyholder.

Benefits Paid

The benefits paid amounts included pure losses only; the amounts specifically excluded Defense Cost Containment and loss-adjustment expenses attributable to a particular claim. (These amounts were collected on a segmented basis and analyzed separately.) The benefits paid amounts do include losses due to interest, pre-suit demand letters and payments made after suit has been filed. I have not, as of the date of this report, been able to discern whether the benefit amounts are time-value adjusted.

Provider Charges and Procedures

Mitchell provided all of the data used by the FLOIR to report on Florida and national averages with regard to medical provider charges per claim, number of procedures per claim, number of procedures per bill and provider charges per procedure. According to email correspondence with the FLOIR staff, the Mitchell data was provided on an aggregate basis so there was no analysis by region, specialty or entity. FLOIR took the data as provided by Mitchell and included it in the report. It is the understanding of FLOIR staff that the data provided would be all medical CPT codes billed under PIP for those carriers that used Mitchell. FLOIR staff further stated that data were not shown on a CPT basis and should encompass all CPT codes used for Florida PIP medical benefits for the insurers that use Mitchell.

Median Duration of Treatment and Number of Procedures

One large, national insurer group provided all the data for the "drill down" into medical billings. It was not clear from reading the Report how much "drill down" data were reported or how the data were segmented. I investigated further, and learned that the data encompassed all the Florida PIP claims for that one insurer group, according to FLOIR staff, with no segmentation by region. The detailed explanation by FLOIR staff was that these data were provided on a "line numbers" and "sum of units" basis. "Line numbers" is the number of times the CPT code was billed and "sum of units" is how many units were billed. One should be mindful that the numbers,

according to FLOIR, represented only one insurer group's experience and only a limited set of CPT codes.

PIP Fraud

The *Report* included data regarding the number of suspicious auto accidents in 2009 for multiple cities, according to data supplied by the NICB in 2010. It is important to note at least two items when reviewing this information:

1. New York led the nation as the city with the highest number of questionable accidents in 2009 and 2010 (Strickland, 2011).
2. The NICB tracks questionable accidents as reported by insurers. Both Tampa and Orlando, Florida set up NICB Major Medical Fraud Task Forces prior to 2009, established to target fraud associated with auto insurance policies. Although these two cities ranked in the top 5 for numbers of questionable accidents (Strickland, 2011), it is possible that to some extent the number of questionable claims was high because of the Task Force efforts. Resources devoted to investigation and reduction of fraud may have an increasing effect on the amount of potential fraud reported, due to both an improved accuracy of report tracking (as more devoted resources can be expected to ease the pressure on previously limited resources) and an increased number of accidents reported as questionable by insurers (as more devoted resources can be expected to raise insurer confidence levels that something may be done to contain fraud and thus they may refer accidents they would not have referred in the past).

PIP Related Lawsuits

The *Report* included data regarding PIP related lawsuits during the time period 2006-2010. This data is problematic for multiple reasons:

1. The data sources were the insurer respondents to the PIP Data Call. I have no information at this time regarding whether all 31 companies reported to have participated in the Data Call actually responded to the request for data regarding PIP related lawsuits.
2. Lawsuits between an insurer and a policyholder may be tracked in different ways by different insurers. If the data request specifically asked for information related to lawsuits, a response may not include pre-suit demand letters.
3. The Data Call did not ask insurers to segment by Florida region or type of lawsuit filed (e.g., class action suits and individual suits). It is possible that some insurers may have counted each individual plaintiff within a class action suit as a separate suit for purposes of the Data Call response, but there is no evidence of this based on the data as received by the FLOIR.

Works Cited

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