

## No Fault Auto Insurance States Explore Reform

By: Juliette Fairley, TheStreet.com

In no-fault states, auto insurance policy holders of personal injury protection (PIP) are comfortably reimbursed for car accidents by their own insurance companies without proof of fault and are restricted from seeking compensation in court from other parties. Sounds good but higher underwriting loss ratios in no-fault states reflect, at least in part, a higher frequency of fraudulent claims.

"Premiums are higher in no fault states," said Douglas Pawlowski, an analyst with Fitch Ratings in Chicago. "When you track loss ratios over five years, these 12 states have a higher loss ratio than all the other states. Losses are 12 % higher."

Currently, twelve states have no fault insurance laws. They include Florida, Hawaii, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, New York, New Jersey, North Dakota, Pennsylvania and Utah.

"Critics of no fault insurance believe insurers are not adequately charging their more reckless drivers, are under compensating victims of fraudulent accidents and charging honest drivers higher premiums," Pawlowski said. The upside of no fault insurance is sidestepping litigation costs, reimbursing the insured for their injuries more quickly and avoiding the risk of uninsured motorists.

However when fraud enters the picture, the disadvantages of PIP potentially outweigh the benefits. "Auto insurance is a significant area for us because it takes up a high percentage of the types of fraud we're seeing occur on the streets," said Howard Goldblatt, director of government affairs at the Coalition Against Insurance Fraud (CAIF) in Washington, D.C.

Fraudsters in a crash ring are known to intentionally stage a swoop and stop in front of unsuspecting, innocent drivers, causing an accident.

"They target luxury brand cars, such as Lexus and Cadillac, because their drivers tend to have better insurance coverage," said Lou Beniamino, executive vice president with GlobalOptions Inc., which manages national special investigations unit in insurance claims and transactions that are suspected of fraud activity. "These con artists load their car with multiple people and claim all the occupants suffered subjective types of back and neck injuries, which are physically hard to disprove." About twenty states have passed anti-fraud laws based on the CAIF's model insurance fraud bill including Maine, Tennessee, Maryland,

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Alabama, New Mexico, Colorado, Minnesota and Florida.

"We've seen evidence that increased anti-fraud efforts by state governments have brought down insurances rates in Massachusetts and New York," Goldblatt said. "We were involved in the Florida effort to include stronger anti-fraud provisions within the larger PIP reform effort that was enacted and went into effect at the beginning of the year."

The changes to Florida's no fault car insurance law that became effective on Jan. 1, 2013 include limiting non-emergency injury compensation to \$2,500 and eliminating massage therapists and acupuncturists as medical providers who were previously paid under a PIP policy.

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"PIP fraud was driving insurance rates up by 29% a year so the state insurance commissioners proposed to increase if by 29% again in 2013 if we didn't do something about it," said Florida Senator Jim Boyd. "If we can't fix the fraud problem, we may eliminate PIP and push for mandatory bodily injury."

Bodily injury liability insurance covers the medical costs of any physical injury incurred as well as legal costs when a driver causes an accident in which a passenger is hurt in either