Detroit Free Press

Steven M. Gursten: Profits, not medical claims, drive up cost of auto insurance in Michigan

April 11, 2013

Michigan auto insurance companies collected more than $2 billion more in auto premiums in 2011 than they paid out in claims.

They brought in about $6.8 billion in private passenger and commercial auto premiums and paid out some $4.7 billion in losses on private and commercial auto claims, according to data provided to Michigan Auto Law by the National Association of Insurance Commissioners and the Michigan Office of Financial and Insurance Regulation

Michigan auto insurers pocketed the difference. That's more than $2 billion in unused premiums in 2011 for the trouble of selling a product (auto no-fault insurance) that consumers in this state are required by law to purchase.

This is particularly significant as the state's powerful auto insurance lobby pushes hard to change Michigan's no-fault auto insurance system. The insurance lobby insists that no-fault medical benefits must be cut or capped because it's the cost of providing unlimited necessary medical care to catastrophically injured automobile accident victims that's forcing them to continually raise already high auto insurance prices.

But the 2011 numbers reveal that's not the case.

When premiums outpace payouts by more than $2 billion, it's clear that it's not the costs of Michigan's auto no-fault insurance system that is driving up high auto insurance rates.

It's profits. This is consistent with the findings by Jay Angoff, a former state insurance commissioner, who, in a study, described Michigan auto insurers as "highly profitable." He also noted that a national insurance trade publication had concluded that Michigan auto insurers had been "significantly more profitable than the national average."

Under these circumstances, it should be Michigan drivers, not the auto insurance companies, clamoring for no-fault reform.

A great place to start that would lower auto insurance premiums in this state immediately would be imposing a requirement on Michigan's auto insurers that they either spend a minimum of 80% of the premiums they collect on providing insurance benefits to customers, or they rebate the difference. Had such a rule been in effect in Michigan in 2011, auto insurers would have had to give back about $739 million to Michigan auto insurance to consumers.

A similar rule called the 80/20 Medical Loss Ratio rule took effect in 2011 for insurers providing mandated health insurance under the federal Affordable Care Act. It was said at the time that by requiring insurers to spend no less than 80% of premium dollars on benefits, rather than on boosting profits, executive salaries and compensation and on marketing, insurance would become more affordable, and consumers would get better value for their insurance dollars.

I can think of about 2 billion reasons why an Affordable Care Act requirement for Michigan's auto insurance companies would be a great way to preserve critical legal protections for consumers, while dramatically lowering the price of insurance.

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