

Getting ready for the Michigan No-Fault Law





The first half of 2020 will be busy for auto insurance carriers operating in Michigan as compliance teams scramble to get ready for no-fault auto insurance reform.

For firms around the insurance industry, staying on top of evolving compliance regulations poses an ongoing challenge. In fact, approximately **33%** of insurance firms say they spend at least an entire day each week keeping track of the changing regulations, according to a Thomson Reuters survey. In addition, **69%** of respondents indicate that they expect regulators to propose additional rules in the coming year.¹

In such an environment, it becomes crucial for insurers to change gears and shift their focus from hindsight to foresight to mitigate further risks.

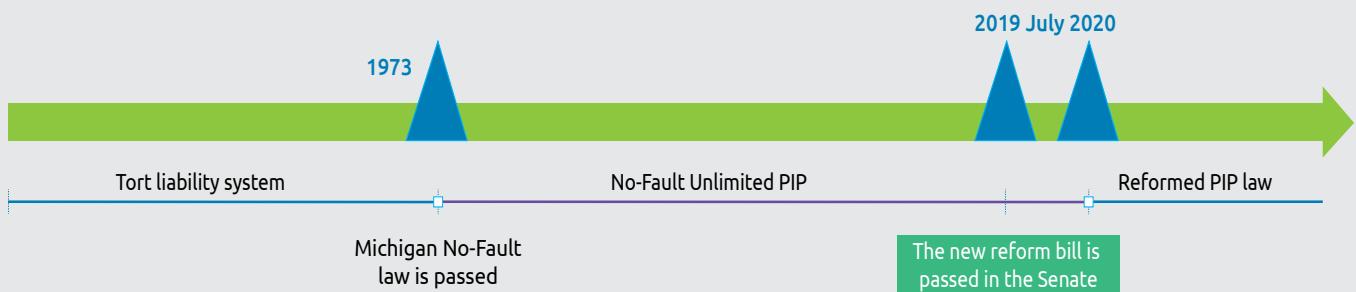
This is the case in Michigan, where carriers must prepare for the historic No-Fault Insurance Law, set to go into effect on July 1.

A study by Thomson Reuters revealed that 33% of the insurance firms surveyed said that they would spend at least an entire day each week keeping track of the changing regulations

Michigan's No-Fault Insurance Law: Then and Now

The original No-Fault Insurance Law, enacted in 1973, requires all licensed Michigan drivers to buy no-fault insurance that includes personal injury protection (PIP), property protection (PPI) and residual liability insurance for bodily injury and property damage. The insurance benefits cover

- medical expenses,
- medical mileage expenses
- wage lost due to the accident
- household services and
- attendant care²

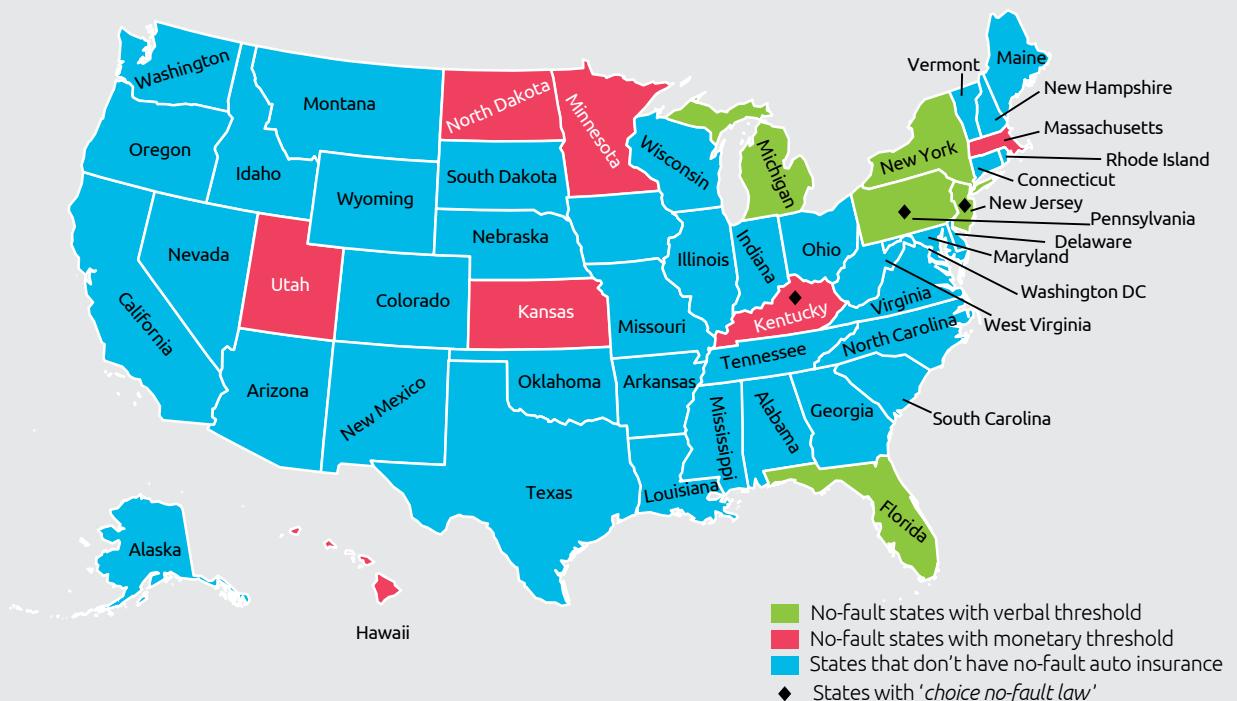


¹ blueprintsys.com/blog/modernization-of-insurance-compliance

² genre.com/knowledge/blog/michigans-no-fault-insurance-law-a-new-direction-en.html

Since insurance providers are liable to provide unlimited lifetime PIP benefits, the state's average auto premium is **79%** higher than the national average³, resulting in unhappy insurers and policyholders. In the US, no-fault auto insurance laws are prevalent in 12 states, with New Jersey, Pennsylvania and Kentucky all having a "choice" no-fault law. There, motorists may reject the lawsuit threshold and retain the right to sue for any auto-related injury.⁴

Exhibit 2: States with No-fault Auto Insurance



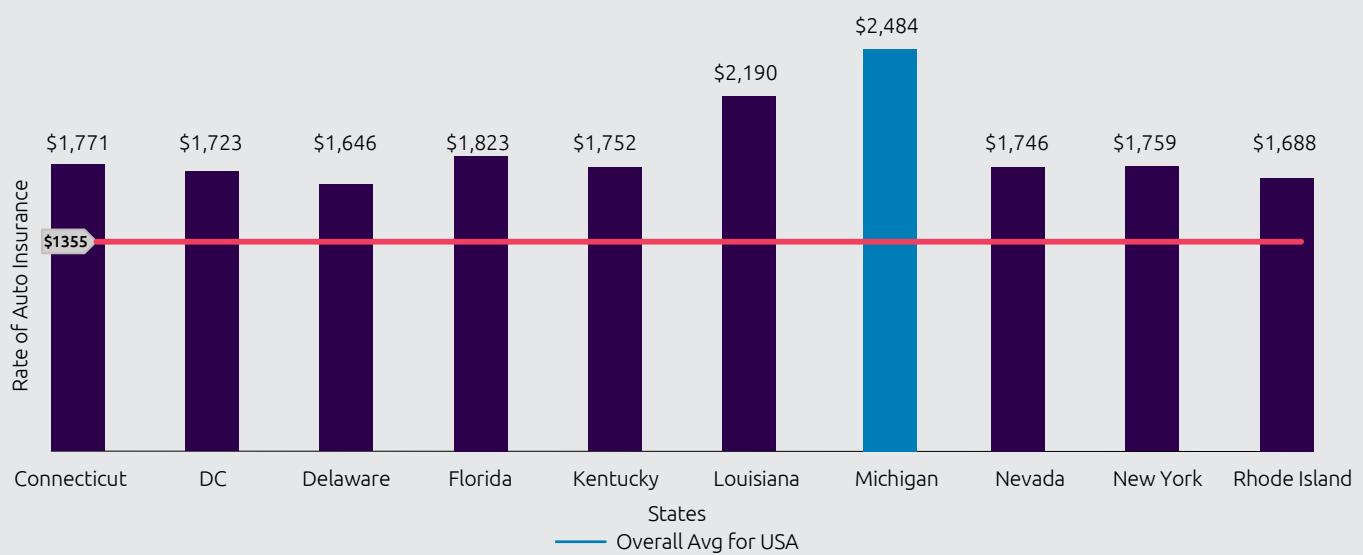
In the no-fault states, the drivers may sue for severe injuries if the case meets certain conditions, known as tort thresholds. There are two types of tort thresholds – verbal and monetary. The thresholds are based on a person's severity of injury, which can be expressed verbally ("dismemberment," "death," etc.) and are known as verbal thresholds or in dollar amounts of medical bills (monetary threshold). Florida, Michigan, New Jersey, New York and Pennsylvania have verbal thresholds, while Hawaii, Kansas, Kentucky, Massachusetts, Minnesota, North Dakota and Utah use a monetary threshold. Within these states, no-fault laws vary drastically. Out of all of them, Michigan has the most comprehensive and expensive no-fault auto insurance system.

³ bridgemi.com/michigan-government/what-no-fault-auto-reform-deal-means-michigan-drivers

⁴ <https://www.iii.org/article/background-on-no-fault-auto-insurance>

Average annual premium for Michigan is \$2,484, more than twice the national average of \$1,355.⁵

Exhibit 3: TOP 10 MOST EXPENSIVE STATES FOR AUTO INSURANCE IN 2019



Source: <https://www.carinsurance.com/state-car-insurance-rates>

New Michigan No-Fault Law effective July, 2020

The biggest change made to the Michigan PIP under the new law is that drivers will not have to purchase unlimited lifetime PIP, and will be able to opt for one of these options:

- \$50,000, if the person is enrolled in the state's Medicaid and if the person's spouse or resident relative has any insurance that provides PIP coverage (Claimed premium rollback: 45%)
- \$250,000 (Claimed premium rollback: 35%)
- \$500,000 (Claimed premium rollback: 20%)
- Unlimited No-fault PIP (Claimed premium rollback: 10%)
- Opt out of purchasing PIP for those who have Medicare or private health insurance covering collision injury⁶

Other significant changes to the law include⁷:

1. The bill would allow automobile insurers to offer a managed care option that provides for allowable expenses subject to certain conditions. The insurers would also be required to offer PIP benefits not subject to the managed care option.

⁵ <https://www.carinsurance.com/state-car-insurance-rates>

⁶ <https://www.bridgemi.com/michigan-government/what-no-fault-auto-reform-deal-means-michigan-drivers>

⁷ <legislature.mi.gov/documents/2019-2020/billanalysis/Senate/pdf/2019-SFA-0001-A.pdf>; <michiganautolaw.com/blog/2019/05/24/new-michigan-no-fault-law/>

Premium saving will be limited to the PIP portion of auto insurance for 8 years until July 1, 2028 after which insurance companies will not be required to offer these exact premium savings.

The insurance company can avoid reducing premiums if they can demonstrate to the Insurance Commissioner that the new rates would violate their constitutional rights or leave them with too little capital.

According to the reform, insurers can no longer redline using ZIP codes, but they can still use geographic territories. Similarly, they cannot use credit scores but can use still make use of the credit information of the insured.

2. PIP benefits would not be coordinated with other health and accidental coverage and will have to be exhausted by the individual claiming benefits under the managed care option before seeking benefits from other health or accident coverage providers.
3. A no-fault fee schedule would be created to govern charges for any care or treatment providers that the victim may use. This schedule will be based on the Medicare fee schedule and will range from 190% to 250% of amount payable under Medicare.
4. The mandatory minimum limits for liability bodily injury insurance have been increased from \$20,000 (one person in a car crash) and \$40,000 (two people in a car crash) to \$50,000 and \$100,000 respectively.
5. Insurance providers cannot offer discriminatory premium rates based on factors unrelated to driving, including gender, education level, occupation, credit score, marital status, home ownership and ZIP code.
6. The liability of insurance companies regarding in-home, family-provided attendant care will be limited to 56 hours per week. The insurer can contract to pay benefits for attendant care for more than 56 hours per week.
7. An Anti-Fraud unit would be created to investigate all criminal and fraudulent activities in the insurance market.
8. A person injured in a car accident can sue for excess medical costs and economic expenses over and above the cap amount selected by them for their PIP. Thus, the amount of coverage in the insurance policy of the negligent driver becomes important.
9. A person entitled to claim benefits of assigned claims plan shall file a form provided by Michigan Automobile Insurance Placement Facility (MAIPF) and provide reasonable proof of loss to the MAIPF to determine claimant's eligibility for benefits. The claim can be denied, if determined as ineligible.
10. The MAIPF will be required to pay benefits only up to \$250,000 or \$2 Million (for the insured who lose their health insurance, provided they purchase PIP coverage within 30 days of losing health insurance) to people eligible to claim benefits under the assigned claims plan.
11. Michigan Catastrophic Claims Association's will reduce its fee by 55% from \$220 to \$100 under the new No-Fault law.

Pros and Cons of the new law

The new law has a mixed impact on both, the insurers and those insured. While there are some benefits that both parties will reap out of the reform, there remains a set of concerns that need to be addressed.

A typical car insurance policy in Detroit comprises of⁸:

- PIP – **44%**
- Bodily injury coverage (liability) – **6%**
- Comprehensive coverage (theft) – **18%**
- Collision (car damage) – **31%**

⁸ Analysis of Pinnacle Actuarial Resources of 2015

	Benefits	Concerns
Insurers	<ul style="list-style-type: none"> The burden of paying unlimited lifetime expenses has reduced to limited liability based on the cap option availed by the claimant. The option of not reducing the premium based on demonstrating a set of criteria may prove beneficial to auto insurers. The liability of in-house care expense is limited to 56 hours per week, resulting in substantial savings for insurance companies. 	<ul style="list-style-type: none"> The premium savings promised to motorists by the bill are aggressive and will result in loss of income for insurance companies. Policyholders may take advantage of the new law and ask insurers for the PIP limit change before July 1. They could even use the changing law as a bargaining chip and threaten to switch insurers. The carriers will have to document the savings made as a result of the No-Fault medical provider fee schedule in their rate filings to the Director of Department of Insurance and Financial Services (DIFS). These savings will then be further passed down to the drivers in the form of reduced premiums. The entire rate structure will have to be redefined for the state of Michigan by every carrier doing business there. The customer's signature has to be procured before the new cap is finalized through a renewal or endorsement. This is an extra step in the customer journey. Insurer now has to take care of additional operational overhead for the signature procurement.
Motorists	<ul style="list-style-type: none"> Since licensed drivers are no longer obliged to buy unlimited No-Fault insurance, they will have flexibility in terms of choosing the amount of coverage they want from the policy. The savings realized by insurance companies as a result of the No-Fault medical provider fee schedule may benefit drivers in the form of lower premiums. Any savings made would be on the No-Fault PIP portion of the auto insurance, which is generally 35% to 44% of the total auto insurance premium. Premium savings under the new law will vary from a minimum of 10% to a maximum of 100% (zero PIP premium). As the new law keeps a check on redlining, there will be some relief for the drivers in obtaining auto insurance as well. 	<ul style="list-style-type: none"> The cost of other insurance (e.g. Medicare) may increase since the no-fault reform legislation places caps on PIP coverage and expects secondary providers to cover shortfalls once the cap is exceeded. In Michigan, the number of Medicare beneficiaries in 2014 was ~\$1.8 million. These residents have the option to completely opt out of PIP insurance. This would further increase the stress on the state's total Medicare spending which was already ~\$20.9 billion by residence in 2014.⁹

⁹ <https://www.kff.org/medicare/www.kopkalaw.com/significant-changes-to-michigan-no-fault>

Motorists	<ul style="list-style-type: none"> Drivers may make complaints on the DIFS website if automobile insurers are not paying benefits, not making timely payments or not performing their duties according to the insurance policy. 	<ul style="list-style-type: none"> Entitled claimants will have to provide a reasonable proof of loss to the MAIPF. Their claims may be rejected if the MAIPF is not satisfied with the proof provided ¹⁰
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Impact across the value chain

Sales & Marketing

Insurers would have to face a minimum rollback of 10% on the PIP premium

- Send communication about the new law and options available to policyholders, along with advice on next steps

Policy Servicing & Underwriting

- Give policyholders a chance to review the premium savings for each option and choose one or opt out
- Collect evidence of Medicare/other insurance for relatives and spouses, depending on the cap chosen by the insured
- Accommodate and enable customers who want to take advantage of the new law and make changes to their policies before the next renewal cycle
- Avail option to add customer signature before the policy is issued. Specific modifications have to be done to the policy systems to make this happen.

Distribution

- All agents will have to be notified and educated about the reforms in the law

Claims/Reserving

- Assess and change claims adjustment/triage rules accordingly
- Evaluate and establish new reserves since the policy coverage will now change

Actuarial

- Define and file the new rate structure according to the tenets of the reform
- Create a disruption analysis according to the new rate structure and the PIP premium discounts

Accounting/Reporting

- File savings to the DIFS periodically which will then be approved/disapproved for savings required by the bill
- Report to Insurance Commissioner if reduced premiums and new rates violate the constitutional rights of the insurers or leave them with too little capital

¹⁰ <http://www.kopkalaw.com/significant-changes-to-michigan-no-fault/>

Capgemini prides itself in understanding the needs of our clients and delivering value to their business. Our proven expertise in insurance core systems transformation coupled with our understanding of complex regulations and their subsequent impact on our clients makes us the right partner to deliver a reliable and cost-effective solution at an accelerated pace.

Next Steps

The proposed reforms complicate an already complex no-fault law. Theoretically, the savings being generated by insurers will get passed down to the end-users as discounted premiums. But on closer examination, one cannot say that the savings will be very significant, considering that the PIP coverage premium contributes to a large percentage of the policy premium as a whole.

It is also possible that both the insurers and policyholders will try to take advantage of the new ruling. Insurers can increase their rates before the reform comes into play in July while policyholders may bargain on getting the premium discounts before July by threatening to switch insurers.

Regardless of how the reforms pan out, they are sure to have drastic, unprecedented and long-term consequences for thousands of car accident victims and millions of drivers throughout Michigan.

Therefore, insurers must be well-prepared to tackle the changes that will have to be made structurally and to their core systems. With the July 1 deadline approaching quickly, it is imperative that carriers start realigning their strategies and set up task forces dedicated to formulating and implementing an action plan.

For more information on the Michigan No-Fault Law, please email us at insurance@capgemini.com



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