

Inflated Medical Bills and Bogus Claims Drive up Cost of No-Fault Auto Insurance in New York, I.I.I. Finds

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ALBANY, NY, February 3, 2010 "Fraud and abuse in New York's no-fault auto insurance system cost consumers and insurers nearly \$230 million in 2009, constituting a "fraud tax" of \$1,561, or 22 percent of every no-fault claim, according to Dr. Robert Hartwig, an economist and president of the Insurance Information Institute (I.I.I.)."

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Since 2005, no-fault fraud has cost the state's consumers and insurers more than \$600 million, Dr. Hartwig estimates, pointing out that the average cost of a no-fault auto insurance claim in New York State soared 55 percent between 2004 and 2009 as dishonest medical providers submitted inflated and sometimes bogus bills for services rendered to insurers.

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"The scale of fraud and abuse in New York State's no-fault auto insurance system today is truly breathtaking," Dr. Hartwig stated, in remarks scheduled for delivery tomorrow to the New York State Senate's insurance committee. "These medical providers partner with equally unscrupulous lawyers who sue insurers that dare to challenge these bogus claims" choking New York's court system in the process."

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If auto insurers are paying out more than they should in no-fault claims, their policyholders are paying out more in premiums, Dr. Hartwig observed. This "fraud tax," namely what New York's insurers are billed by medical providers versus what other pricing benchmarks indicate they should be charged, totaled nearly \$1,600 *per claim* in 2009, a 20-plus percent surcharge medical providers are extracting from the system for every single accident.

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â€œThe average policyholder in New York spent \$1,047 in 2007 to insure their vehicle compared to \$795 nationally, a difference of \$252 or 31.7 percent. The state ranks as the third most expensive in the country,â€• Dr. Hartwig said, noting that 2007 is the most recent year for which definitive premium data is available.

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The average cost of a no-fault auto insurance claim skyrocketed to \$8,690 in the third quarter of 2009, up \$3,075, or 55 percent, from \$5,615, the average cost of a no-fault claim in the third quarter of 2004. Only Michigan and New Jersey auto insurers, which also operate in deeply troubled no-fault states, paid higher average no-fault claims as of year-end 2009, an I.I.I. analysis found.

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â€œWhile the cost drivers influencing the price of auto insurance in New York are similar to those in other states in most respects, there is one glaring exceptionâ€”its \$50,000 threshold for no-fault auto insurance claims is the highest dollar threshold in the United States. It should come as no surprise that the richest benefits in the country come with the highest costs,â€• Dr. Hartwig said.

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Recognizing the generosity of this \$50,000 cap, and the absence in New York of safeguards such as medical treatment guidelines or utilization reviews and controls, Dr. Hartwig noted that the cost of the average no-fault Personal Injury Protection (PIP) claim rose 47.1 percent in New York between 2004 and 2009. Medical costs in the U.S. rose by 21.1 percent over this same time frame. PIP is the portion of an auto insurance policy that covers the treatment of injuries to the driver and passengers of the policyholderâ€™s car.Â

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â€œSolutions for containing New Yorkâ€™s emerging crisis must necessarily focus on cost drivers and you will hear about many of these solutions from the other panelists speaking here today,â€• Dr. Hartwig concluded. â€œBut because the state has the highest no-fault dollar threshold in the country, it remains attractive to those who perpetrate fraud based on the perception that the insurers who pay the bills are a â€˜deep pocket.â€™â€•

For more information, go to [No-Fault Auto Insurance](#).

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