

Interim Transportation  
August 20, 2015

**TESTIMONY OF PATRICK J. WARD IN REGARD TO HB 1073**

Good morning Chairman Ruby and Members of the Interim Transportation Committee.

My name is Pat Ward. I am here on behalf of the Association of North Dakota Insurers to testify about no fault benefits.

This bill last session mandated an increase in two statutory required basic no-fault benefits under our no-fault insurance law, wage loss and the funeral expense benefit. Simply put, to increase the benefit would result in an increase in basic no-fault auto insurance premiums.

Currently, North Dakota is one of the lowest premium auto insurance states, ranking 45<sup>th</sup>. To the best of my knowledge, none of the states with lower premiums are no-fault states.

No-fault or PIP (Personal Injury Protection) insurance was a trend that started in the 1970s with the assumption that if a person's immediate basic medical and other expenses were taken care of by his own insurer right away, there would be fewer liability lawsuits. However, this turned out not to be so.

The industry has learned that no-fault is not an economic way to provide medical, wage loss or other benefits. P&C companies are not experts in managing such claims and they do not have the same protections as health insurers or the Government (Medicare, Medicaid, etc.) to write down excessive charges or bills.

Over the past 10 years, almost every state that has addressed No-Fault benefits has reduced coverage, because it is so inefficient, and ultimately a bad buy comparatively speaking for consumers. Many states have eliminated it altogether. At its peak, I think there were 26 states that had mandatory PIP – now it's something like only 12.

If we increase benefits coverage, I can guarantee that rates will go up – and not just the amount of the increased coverage. For example, insurance companies must add on agents' commissions, premium tax, and increased reinsurance costs (reinsurance cost is based on written premium) to any increase. So if the increased coverage goes up a dollar, the insurance premium goes up \$1.20 – this is why mandatory PIP is being reduced or eliminated elsewhere.

When most states are doing away with No-fault, why would ND increase and expand their program? This is hardly the way to keep auto insurance affordable. Today most people should have health insurance as it is required by federal law.

One of the strongest arguments for leaving the no-fault benefits at their current levels is that it is not supposed to be a cure-all for whatever happens. Its primary goal is to take care of medical costs, which it does very well. It is not life insurance or funeral benefit insurance, so it should not be expected to cover a funeral bill. Supplement towards the expense, yes. Not satisfy completely. The industry believes it is important to keep basic auto insurance premiums affordable. If we use auto insurance to tack on other mandatory insurance

benefits, such as health and life and disability, we price customers out of the auto insurance market and increase the number of uninsured drivers (and make criminals of otherwise honest citizens). A few years ago Colorado did away with no-fault insurance altogether because of the rampant fraud and expense which had resulted in large numbers of uninsured drivers (33%).

As for the loss of wages, it is not intended to cover all lost earnings or be a disability or work comp policy, but rather to pay a stipend towards those lost earnings. The "average weekly wage" thing is uncertain and could be a huge cost multiplier. If we move the benefit from a stipend to a level that actually replaces all or a lot of the persons wages, we are probably going to see a sharp increase in the number of "disabled" claimants, or people who refuse to go back to work. Medical literature shows faster and better healing when people get back to work sooner.

The burden of trying to sort out malingerers or fraud would also be a much larger task for a P&C company, than for say, WSI, and that leads to only one result: higher costs, either through fraud, more people trying to manufacture claims or through companies paying claims which are not properly owed. Either way, the cost goes back to the consuming public through increased insurance premiums.

We have learned to live with the current no fault system. The most important thing is to keep control of costs.