

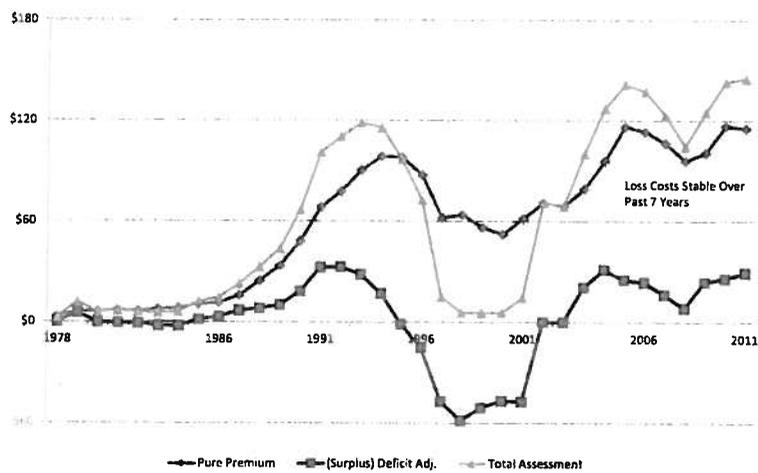
A Review of Michigan Auto Insurer Profitability and the MCCA

Before the Michigan House Insurance Committee

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MCCA Assessment, 1976-Present:
Estimates of PIP Claims Costs Have Been Erratic



Premium Paid in Michigan, 2006-10

Written Premium (\$ Millions)

<u>Year(s)</u>	<u>PIP</u>	<u>Other Liability</u>	<u>Physical Damage</u>	<u>Total</u>
2006	\$2,317	\$979	\$2,765	\$6,062
2007	\$2,222	\$940	\$2,646	\$5,807
2008	\$2,152	\$908	\$2,575	\$5,634
2009	\$2,209	\$917	\$2,511	\$5,638
2010	\$2,476	\$930	\$2,465	\$5,871
2006-10	\$11,376	\$4,674	\$12,962	\$29,012

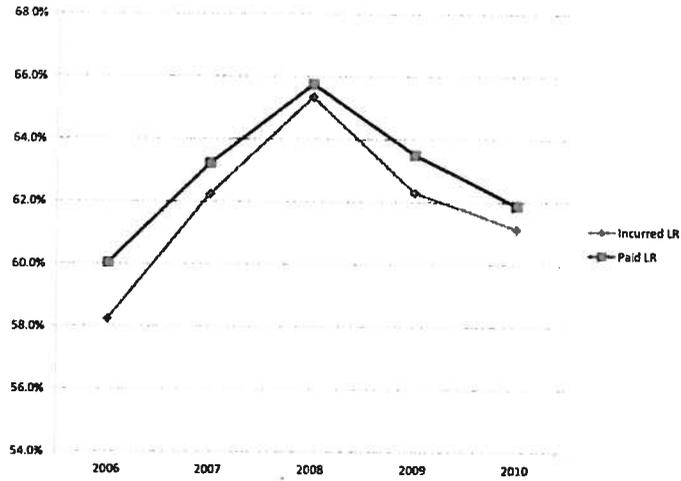
Key Concept:

Paid Losses vs. Incurred Losses

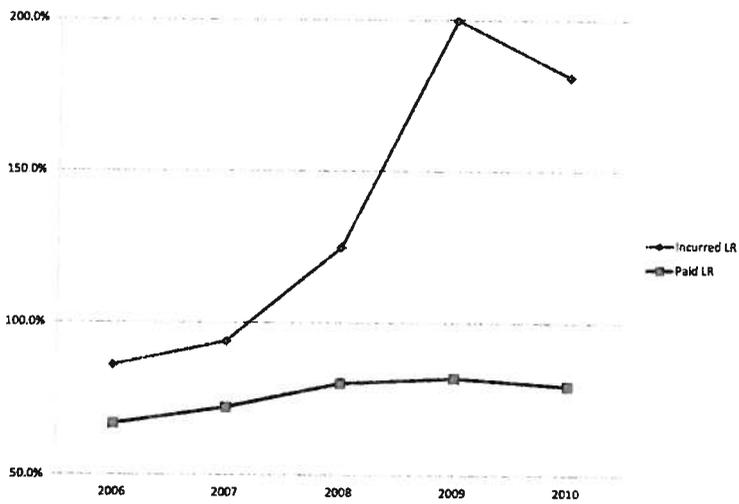
Incurred Losses Include Estimates of
Future Claim Payments -- "Reserves"

PIP Reserves Difficult to Estimate and
Have Been Erratic

Incurred LR vs. Paid LR: Physical Damage



Incurred LR vs. Paid LR: PIP



NAIC Profitability Report

The profit reported for Michigan auto liability is not meaningful because of data reporting anomalies arising from the data related to the Michigan Catastrophic Claims Association.

Michigan Auto Insurers Are Profitable

Paid Loss Ratio

<u>Year(s)</u>	<u>PIP</u>	<u>Other Liability</u>	<u>Physical Damage</u>	<u>Total</u>
2006	66.8%	54.9%	60.0%	61.8%
2007	72.2%	51.6%	63.2%	64.8%
2008	80.1%	55.0%	65.8%	69.5%
2009	81.9%	55.1%	63.5%	69.4%
2010	79.3%	58.6%	61.9%	68.7%
2006-10	76.0%	55.0%	62.8%	66.8%

**NAIC Data Show Michigan Average Premium
Declining**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Avg. Liability Premium	\$494	\$507	\$494	\$487	\$488
Rank	16	15	18	20	21
Avg. Expenditure	\$1,032	\$1,056	\$1,068	\$1,089	\$1,128
Rank	11	12	12	12	9
Avg. Total Premium	\$907	\$928	\$925	\$931	\$980
Rank	11	12	12	13	10

MCCA: Assets Sufficient to Pay PIP Claims

(\$ Millions)	2011	2010	2009	2008	2007
1 Total Admitted Assets	13,807	11,436	10,348	10,913	10,726
Loss Reserves					
2 (Discounted)	13,743	13,569	12,563	11,462	10,977

MCCA: Incurred Losses Are Meaningless

(\$ Millions)	2011	2010	2009	2008	2007
6 Losses Incurred	1,133	1,816	1,863	1,194	1,006
7 Losses Paid	959	810	762	710	669
8 Incurred LR	115%	219%	238%	135%	103%
9 Paid LR	95%	94%	101%	82%	69%

MCCA: Erratic Reserves Lead To Erratic Results

(\$ Millions)	2011	2010	2009	2008	2007
10 Net Underwriting Gain	(201)	(1,007)	(1,116)	(322)	(142)
11 Net Investment Gain	648	527	96	400	751
12 Net Income	449	(480)	(1,019)	78	609
13 Surplus	(1,035)	(2,528)	(2,571)	(908)	(633)

MCCA: Estimates of Future Claims Are Volatile

(\$Millions)	2011	2010	2009	2008	2007
One Year Loss					
14 Development	919	812	(4,055)	(1,290)	2,035
Two year Loss					
15 Development	1,618	(2,704)	(4,730)	1,189	(104)

If PIP Costs Were Exploding, What Would We Expect To See?

	<u>Yes</u>	<u>No</u>
Total Premiums Paid Increasing Rapidly?		XX
Average Premium Paid Increasing Rapidly?		XX
MCCA Pure Premiums Increasing ?		XX
MCCA Deficit Increasing?		XX
Insurers Unprofitable?		XX
Insurers Filing for Large Rate Increases?		XX

**Tennyson Report: Misleading Data, Faulty
Analysis Are No Basis for Radical Restructuring
of No-Fault System**

"MCCA Payments Increasing"

Expected as New Claims Added Each Year

"Average PIP Claim Increasing"

**Expected as Older Claims Add Payments, Average Claim is
Not Pure Premium**

"Michigan Average Premium Rank Worsening"

**Cherry-Picked Numbers Misleading, NAIC Data Shows MI
System Efficient and Average Premiums Declining**

**Tennyson Report: Misleading Data,
Faulty Analysis Are No Basis for Radical
Restructuring of No-Fault System**

"Cost of PIP Claims Unsustainable"

**MCCA Pure Premium Stable, Substantial Assets to Pay
Claims, Average Premium Declining**

"Unlimited Benefits Cause Excessive Costs"

**Bad Economic Analysis, Injured Consumer Not Specifying
Treatment, Not Directing Expenditures**

