

Florida Personal Auto Insurance Impact of Repealing No-Fault Coverage

Prepared for Property Casualty Insurers Association of America

January 25, 2018

[Thomas Ryan](#), Principal, FCAS
[Dionne Schaaffe](#), Associate Actuary, ACAS
[Steve Walsh](#), Consulting Actuary, FCAS, FSA

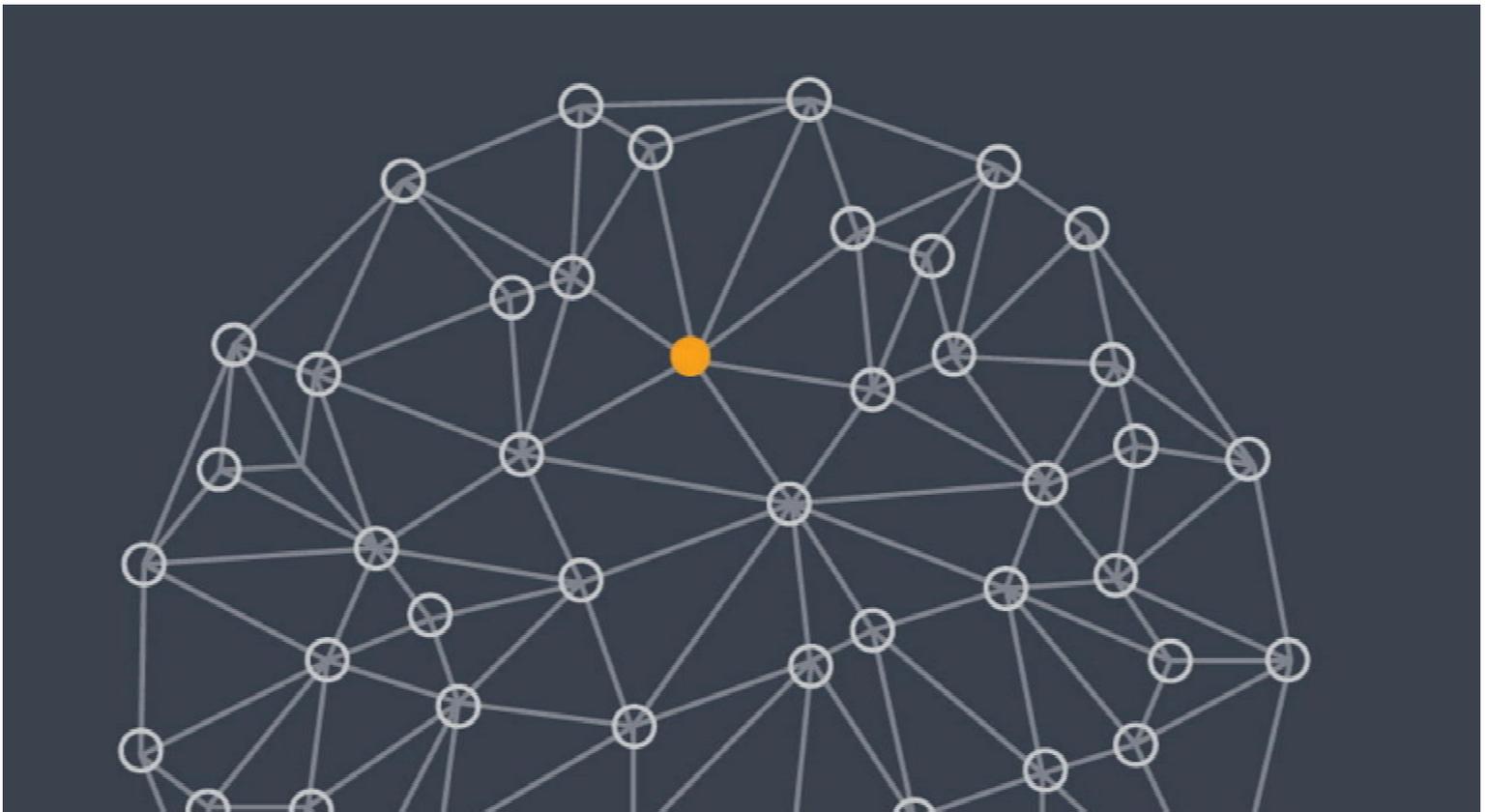


Table of Contents

REPORT FRAMEWORK	3
EXECUTIVE SUMMARY	4
SUMMARY OF CONCLUSIONS	5
BACKGROUND AND SCOPE OF WORK	6
CURRENT FLORIDA AUTO INSURANCE REQUIREMENTS	7
PROPOSED CHANGES TO CURRENT FLORIDA REGULATIONS UNDER HB19	8
ESTIMATED IMPACT OF ENACTMENT OF HB19	8
AUTO BODILY INJURY COVERAGE.....	11
UNINSURED MOTORIST COVERAGE	12
OPTIONAL MEDICAL PAYMENTS COVERAGE	13
OUT OF AUTO INSURANCE SYSTEM.....	13
REASONABILITY TEST OF MODEL RESULTS	13
PROPOSED INTRODUCTION OF MANDATORY MEDICAL PAYMENTS COVERAGE	14
OTHER PROPOSED CHANGES TO CURRENT FLORIDA REGULATIONS	15
BAD FAITH REFORMS FOR TIME LIMITED DEMANDS	15
TORT LIABILITY FOR BAD FAITH INCREASES LOSS COSTS	15
PCI'S PROPOSED MODEL REFORM FOR BAD FAITH	15
BAD FAITH INCREASES FLORIDA PREMIUM 13.4% AND PROPOSED REFORM COULD SAVE 6.7%.....	16
SUPPORT FOR BAD FAITH INCREASE ON FLORIDA PIP AS 17.5% OF LOSSES	17
SUPPORT FOR BAD FAITH INCREASE ON FLORIDA UM/UIM AS 17.5% OF LOSSES	17
SUPPORT FOR BAD FAITH INCREASE ON FLORIDA BODILY INJURY AS 31.9% OF LOSSES	18
SUPPORT FOR BAD FAITH INCREASE ON FLORIDA PROPERTY DAMAGE AND PHYSICAL DAMAGE AS 5% OF LOSSES	19
PROPOSED NO PAY, NO PLAY IMPACT	19
PREVIOUS STUDY PROVIDED FRAMEWORK AND EARLIER ESTIMATE	19
UPDATED ESTIMATE 1.9% OF EARNED PREMIUMS COULD BE IMPACTED BY NO PAY, NO PLAY	19
SUPPORT FOR PERCENTAGE OF BI CLAIMANTS WHO WERE DRIVERS	20
SUPPORT FOR PERCENTAGE WHO WERE UNINSURED.....	20
SUPPORT FOR AVERAGE COMPENSATION FOR NON-ECONOMIC LOSSES	20
UPDATED ESTIMATE IS COMPARABLE TO SIMILAR STUDIES	20
DATA RESOURCES	21
STATEMENT OF QUALIFICATIONS	21
LIMITATIONS	22
DATA	22
UNCERTAINTY	22
DISTRIBUTION.....	22

USE OF MILLIMAN NAME 22

Report Framework

The analysis in this Research Report relies on retrospective data from 2012 through 2017. Using this historic data, Milliman projects, in part, the impact of legislative changes under consideration in Florida on “pure premium”, which is generally defined as the part of premium required to pay losses and loss related expenses. Milliman’s projections do not address “gross premium”, which is the part of premium required to pay necessary, non-loss related expenses and to incorporate profit. The extent to which legislative changes will, in fact, impact pure or gross premium for a given insurer will be determined by each insurer based on its unique book of business, related actuarial determinations, strategies for containing or spreading non-loss related expenses, and individual investment portfolios, among other factors.

The data resources that form the basis of Milliman’s analysis are listed on page 21 of the Research Report. Among these is a survey conducted of PCI members, which is included in the Report as Appendix A. This survey was conducted in compliance with Safe Harbor Rules issued by the Department of Justice and Federal Trade Commission to guide surveys of competitors. Specifically, individual members submitted confidential responses that were aggregated for use in this Research Report. In addition, the data collected was more than 3 months old at the time it was collected and at least five survey respondents reported data for each question, with no individual respondent’s data representing more than 25% on a weighted basis of the reported data for any individual survey question.

Executive Summary

Milliman, Inc., an international actuarial consulting firm, was engaged by the Property Casualty Insurers Association of America (PCI) to provide an analysis of the impact on current Florida personal automobile insurance rates of House Bill 19 (HB19). This bill allows for the repeal of the Florida Motor Vehicle No-Fault law and replacement with mandatory liability coverage including \$25,000/\$50,000 (\$25,000 limit per person, \$50,000 limit per accident) coverage for bodily injury liability (BI) and \$10,000 of coverage for property damage liability (PD). PCI also requested quantification of the impact of implementing mandatory Medical Payments (MP) coverage in addition to the changes included in HB19 as well the impact of implementing selected reforms.

While there many possible variations in personal auto insurance coverage available within Florida, we have focused our analysis on what we believe are most relevant. Based on the analysis contained in this report, we estimate the implementation of HB19 would have the following impact on the cost of insurance for following sample of drivers:

- A 5.3% or \$67 increase for the average driver who purchases many but not all of the available auto insurance coverages;
- A 7.2% or \$105 increase to drivers who purchase all coverages (“full coverage”); and
- A 50.1% or \$230 increase for drivers who purchase minimum mandatory PIP and PD limits today and would purchase minimum mandatory PIP and BI limits post HB19.

The addition of mandatory MP coverage would increase projected rates further. For example, we estimate an increase of 9.2% or \$116 for the average driver mandated to purchase MP coverage with \$5,000 limits along with the coverages specified in HB19.

While there are many factors considered in our analysis, we believe the main drivers of the indicated rate increases relate to (1) the addition of PIP losses previously excluded from the auto insurance system due to co-insurance provisions, (2) the addition of non-economic damages related to claims formerly covered by PIP but to be paid by BI or UM post HB19, and (3) the increase in coverage benefits related to the higher mandatory \$25,000/\$50,000 BI limit.

Our analysis also included the impact of reforms related to Time Limited Demands and “No Pay, No Play” laws. Our analysis indicate there would be overall reductions to current average rates if these reforms were to be implemented in tandem with HB19 and mandatory MP coverage.

Summary of Conclusions

Florida House Bill 19 (HB19) allows for the repeal of the Florida Motor Vehicle No-Fault law and replacement with mandatory liability coverage including \$25,000/\$50,000 (\$25,000 limit per person, \$50,000 limit per accident) coverage for bodily injury liability (BI) and \$10,000 of coverage for property damage liability (PD). The bill is proposed to be effective January 1, 2019.

Based on the analysis contained in this report, we estimate that the repeal of Personal Injury Protection (PIP) coverage as part of the implementation of HB19 could result in a 0.7% increase in average annual incurred losses related to the Florida auto insurance system. After also accounting for fixed underwriting expenses related to PIP, we believe this change could result in a 2.3% decrease to total average auto insurance rates in Florida as shown on Exhibit 2. However, we estimate the introduction of mandatory \$25,000/\$50,000 BI coverage additionally increases the average premium by 4.7%. We also estimate that as PIP is repealed more insureds will purchase underinsured/uninsured motorists (UIM/UM) coverage, which would also increase the average premium. In total, we estimate that the repeal of PIP, the mandated higher limits BI coverage and the change in coverage mix will result in an average increase of 5.3% or \$67 as shown in the Figure 1 below and Summary Exhibit A.

Alternatively, the change would result in a 7.2% or \$105 increase to insureds who purchase all coverages (“full coverage”) and a 72.2% or \$340 increase in average rates to insureds who purchase only mandatory coverages (PD and PIP in the current environment, BI and PD in the post HB19 environment) but at average limits. For those who purchase the absolute minimum limits today (PIP and \$10,000 PD) and post HB19 (\$25,000/\$50,000 BI, \$10,000 PD), we estimate the increase in rates would be 50.1% (see Exhibit 8).

FIGURE 1:

COVERAGE	2017 AVERAGE RATE	ESTIMATED CHANGE (%)	2017 POST HB19 RATE	ESTIMATED CHANGE (\$)
BODILY INJURY	367.22	66.2%	\$610.19	\$242.97
PROPERTY DAMAGE	200.97	0.0%	200.97	-
PERSONAL INJURY PROTECTION	270.21	-100.0%	-	(270.21)
OPTIONAL MEDICAL PAYMENTS	40.74	115.2%	87.67	46.92
UNINSURED/UNDERINSURED MOTORISTS	<u>176.79</u>	<u>48.2%</u>	<u>262.00</u>	<u>85.21</u>
TOTAL LIABILITY	933.52	7.2%	1,000.51	66.99
COLLISION	320.63	0.0%	320.63	0.00
COMPREHENSIVE	<u>88.55</u>	<u>0.0%</u>	<u>88.55</u>	<u>0.00</u>
TOTAL PHYSICAL DAMAGE	398.11	0.0%	398.11	0.00
GRAND TOTAL	1,252.53	5.3%	1,319.53	66.99

If mandatory first party Medical Payments coverage were enacted along with HB19 (in place of the current optional MP coverage), average premiums would increase by \$80 or 6.4% for \$1,000 limits, increase by \$116 or 9.2% for \$5,000 limits and increase by \$146 or 11.7% for \$10,000 limits as shown in Figure 2 and Summary Exhibit B.

FIGURE 2:

MANDATORY MED PAY LIMIT	2017 AVERAGE RATE	ESTIMATED CHANGE (%)	2017 Post HB19 Rate	ESTIMATED CHANGE (\$)
1,000	1,252.53	6.4%	1,332.72	80.18
5,000	1,252.53	9.2%	1,368.39	115.85
10,000	1,252.53	11.7%	1,398.98	146.45

In addition to the changes cited above, we projected savings related to various reform initiatives that could be combined with HB19 and mandatory medical payments coverage. The reforms, their overall projected savings in total and when combined with HB19 and the various mandatory medical payments coverage options are summarized below and in Figure 3 and Summary Exhibit C:

- **Bad Faith Reforms for Time Limited Demands:** Tort liability for bad faith has been shown in numerous studies to increase loss costs, estimated here as a 13.4% increase in private passenger auto premium. PCI has a model reform for bad faith including specified time frames and written communication. Discussions with industry claim and legal experts suggest this type of reform could decrease the costs of bad faith by 50%, or a total of 6.7% of premium.
- **Proposed No Pay, No Play Laws:** No Pay, No Play laws prohibit an injured driver from recovering non-economic losses if the injured driver was violating certain laws, such as being an uninsured motorist or driving under the influence. We estimate these laws could reduce loss costs by 6.8% of BI premium in Florida.

In total, we project average rates to decrease between 14% and 16% if these reforms were enacted in concert with HB19 and mandatory MP coverage.

FIGURE 3:

MANDATORY MED PAY LIMIT	2017 POST HB19 RATE	ESTIMATED CHANGE (%)	2017 w/Reforms Rate	ESTIMATED CHANGE (\$)
1,000	1,332.72	-13.5%	1,152.14	-180.58
5,000	1,368.39	-15.2%	1,160.89	-207.50
10,000	1,398.98	-16.5%	1,168.39	-230.59

Background and Scope of Work

Average expenditures for personal automobile insurance in Florida rank among the highest in the country. A major contributor to the high cost of auto insurance in Florida is the cost of Personal Injury Protection (PIP), the first party coverage for medical and loss of income expense resulting from auto accidents and provided without regard to fault. Since its inception, there have been numerous concerns regarding fraud and abuse in the PIP system which have led to higher rates. Material reforms to the PIP system were implemented in 2012 through House Bill 119 (HB 119) temporarily lowering PIP costs but the impact of these reforms appears to be eroding as costs are rising again. One potential solution to addressing rising costs is the repeal of Florida's current no-fault law and introduction of mandatory bodily injury coverage, as included in House Bill 19 (HB19), in conjunction with other reform initiatives.

The Property Casualty Insurers Association of America (PCI) has requested that Milliman provide an analysis of the total effect on current auto insurance rates of the following actions:

1. Implementation of HB19;
2. Implementation of mandatory Medical Payments (MP) coverage at various limits; and
3. Implementation of reforms related to:
 - a. Time Limited Demands; and
 - b. No Pay, No Play for Uninsured Motorists;

Current Florida Auto Insurance Requirements

The following auto insurance coverages are currently mandatory for Florida drivers:

- Personal Injury Protection (PIP) – PIP is a first party coverage that pays for injury related expenses regardless of fault in an auto accident. Benefits include compensation for necessary medical expenses, lost wages, lost services and funeral expenses. In Florida, there is a minimum mandatory PIP limit of \$10,000 (higher limits are available) with a co-insurance provision of 20% for medical expenses and 40% for work loss related expenses. Claimants may recover expenses which exceed their PIP limit through a BI claim. However, general damages (non-economic damages for pain and suffering) may not be recovered under a BI claim unless the verbal tort threshold is met. The following injuries make up the verbal threshold:
 - Significant and permanent loss of an important bodily function;
 - Permanent injury with a reasonable degree of medical probability;
 - Significant and permanent scarring or disfigurement; and
 - Death.

Note that in Florida, PIP losses are not subject to subrogation.

- Property Damage Liability (PD) – PD is a third party coverage for damages a driver may cause in a car accident to someone else’s property – such as a car or building. If an insured is sued for fault in an accident, the insurer will provide legal representation. In Florida, there is a \$10,000 minimum limit for PD coverage.

Optional coverages available include the following:

- Bodily Injury Liability (BI) – BI is a third party coverage that helps to pay for serious or permanent injury or death to others. Minimum BI limits are \$10,000/\$20,000. If an insured is sued, the insurer will provide legal representation. While the cover is currently optional, we estimate that 93% of Florida insureds purchase BI coverage as per ISS data.
- Underinsured/Uninsured Motorists (UIM/UM) – UIM/UM is a first party coverage that pays for expenses caused by drivers who are either underinsured relative to the amount of damages incurred or who do not have BI insurance. As BI is currently optional in Florida, a driver may have mandatory PIP and PD coverage but be considered “uninsured” for UM coverage if they are not carrying BI coverage. While optional, we estimate that 63% of insureds purchase UIM/UM coverage in Florida based on ISS data.

- Medical Payments (MP) – MP is a first party coverage that covers medical expenses due to bodily injury sustained in an auto accident, regardless of fault. There is no co-insurance for MP coverage and lower limits than PIP are available. While optional, we estimate that 27% of insureds purchase MP, primarily to cover medical expenses subject to the PIP co-insurance provision and any medical expenses above the PIP limit.
- Comprehensive – Comprehensive is a first party coverage that provides coverage for damages to an insured’s own car that do not result from an accident. This could include damage for fire, theft, windstorm or flood.
- Collision – Collision is a first party coverage that provides cover for accidents related to damages to an insured’s own car.

Proposed Changes to Current Florida Regulations Under HB19

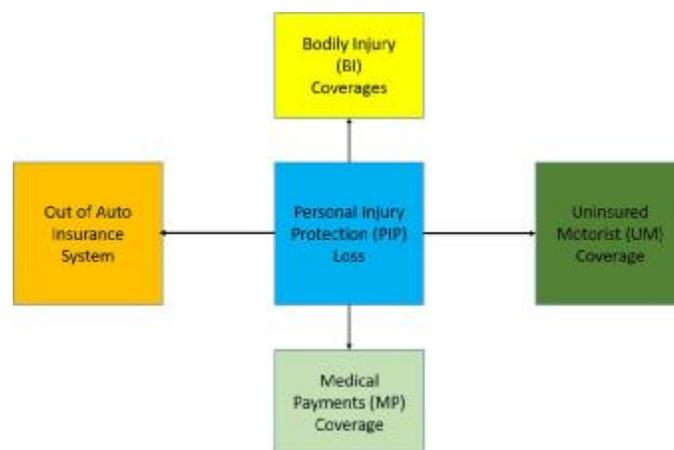
Florida HB19 allows for the repeal of the Florida Motor Vehicle No-Fault law and replacement with mandatory liability coverage including \$25,000/\$50,000 coverage for BI and \$10,000 of coverage for PD. There would be no change for PD and no other coverages would be mandated. The bill is proposed to be effective January 1, 2019.

Estimated Impact of Enactment of HB19

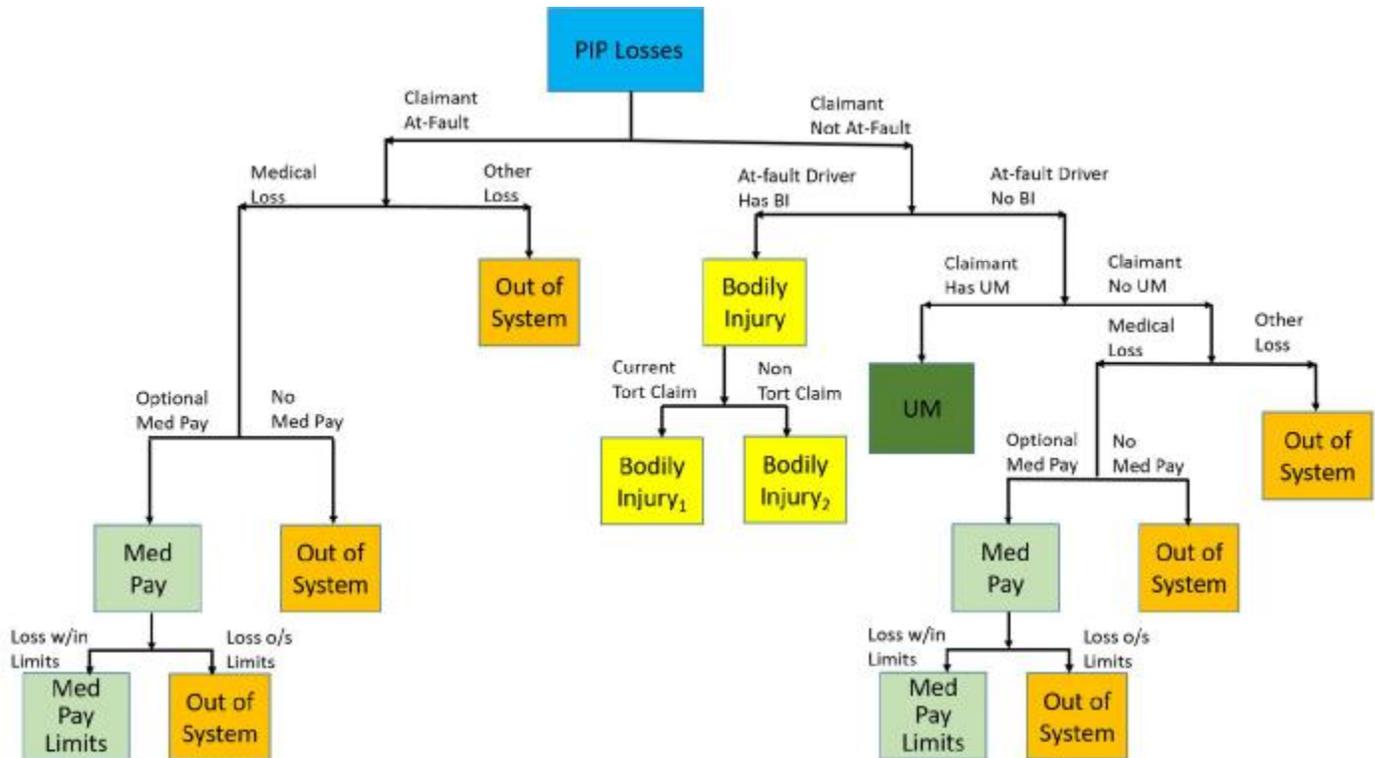
The enactment of the proposed legislation and dissolution of PIP coverage will result in large scale changes to losses and premiums for many but not all of the remaining coverages in the Florida auto insurance system.

Assuming no change to the number and type of accidents experienced in the current environment upon enactment of HB19, the costs associated with these accidents will continue to be incurred but may be shifted to other coverages or even outside the auto insurance system to health insurers, medical providers, and borne by policyholders as out of pocket expenses.

The graphic below provides a high level representation of the possible flow of losses from PIP to other coverages. As shown in the graphic, coverages such as property damage and physical damage (comprehensive and collision) should not be impacted, as they are related to coverage for property damage which is not covered by PIP.



To determine where the current PIP losses may eventually reside, we created a model of the key coverage determinants within the auto insurance system, as illustrated below. The answers to key questions in the model determine coverages to which the PIP losses may flow. To determine the answers to these key questions, we relied on Florida industry data as outlined in the Data Resources section of this report.



In addition to determining where current losses might move to, we adjusted these losses for factors that tend to increase or decrease liabilities if responded to by coverages other than PIP.

The factors that would tend to increase or decrease current PIP losses when responded to by other coverages are listed below. We have separated these factors into two groups. The first group includes factors for which the impact is more certain and which therefore are included in our model. The second group includes factors for which the impact (both the direction and magnitude of the change) is more uncertain, so we have not included a provision for the factor in our model.

Certain Impact Factors

- **Non-Economic Damages (Pain and Suffering)** – PIP losses do not include any provisions for non-economic damages, such as pain and suffering. If PIP is repealed and current losses are covered by BI or UM, provisions for non-economic damages may be added to current PIP losses, increasing the amount of loss.
- **Comparative Negligence** – Losses related to accidents that are covered by PIP are covered regardless of fault. For BI and UM coverages, comparative negligence of the claimant is accounted for which could reduce the amount of damages recovered by the claimant when compared to recoveries made under PIP.

- Co-insurance – Current PIP coverage includes a co-insurance provision of 20% for medical expenses and 40% for loss of income expenses. Most other coverages provide payment from first dollar, therefore increasing losses by adding the current co-insurance provision to the losses within the insurance system when PIP losses flow to other coverages.

Uncertain Impact Factors

- Allocated Loss Adjustment Expenses (ALAE) – One reason for implementing no-fault coverage is to help reduce the need for people to sue to cover the cost of injuries resulting from auto accidents. Fewer lawsuits would help to reduce associated legal fees and provide payments to deserving claimants more efficiently. The expectation in a repeal of PIP would be for an increase in expenses related to legal defense of claims or ALAE as the claims migrate to the tort system. However, in Florida, there is a material amount of attorney involvement on the both claimant and insurer side of many PIP claims resulting in a higher level of ALAE than expected. Therefore, it is uncertain if the impact of moving PIP claims to a tort system would have a material impact on ALAE costs. As a result, we have not included any adjustment for changes to ALAE within our model.
- Fraud – PIP coverage in Florida has been the target of many fraud and abuse schemes in the past. If the system were to move an all tort system without automatic first party coverage, it is uncertain how much this change would reduce fraudulent claims, thus reducing total costs to the auto insurance system. Due to this uncertainty, we have not adjusted our central projections for any reduction in fraud claims in the proposed new system. However, we did sensitivity test the impact of a 10% decrease in PIP fraud and abuse losses (assuming 30% of PIP losses were related to fraud). Figure 4 compares the results to the average rates from Figure 1. As shown in Figure 4, the impact is only \$5.01 or -0.4% of the total average rates.

FIGURE 4:

COVERAGE	2017 POST HB19 RATE	2017 POST HB19 RATE W/ FRAUD ADJUSTMENT	ESTIMATED CHANGE (\$)
BODILY INJURY	\$610.19	\$606.76	(\$3.43)
PROPERTY DAMAGE	200.97	200.97	-
PERSONAL INJURY PROTECTION	-	-	-
OPTIONAL MEDICAL PAYMENTS	87.67	87.67	-
UNINSURED/UNDERINSURED MOTORISTS	<u>262.00</u>	<u>259.50</u>	<u>(2.49)</u>
TOTAL LIABILITY	1,000.51	995.50	(5.01)
TOTAL PHYSICAL DAMAGE	398.11	398.11	-
GRAND TOTAL	1,319.53	1,314.51	(5.01)

- **Bad Faith** – In prior research performed by Milliman (discussed below), we have estimated that bad faith laws have a greater impact on BI than on PIP or UM in the current system. It is uncertain if removing PIP would result in higher payments due to the threat of more bad faith claims as losses are paid through BI coverage. In our model of HB19, we have not assumed any increase to losses due to the greater potential for bad faith claims for BI coverage. We do estimate the impact of adding bad faith reform measures in conjunction with the implementation of HB19.
- **PIP Benefits** – Current PIP losses are subject to various benefit limits such as those included in House Bill 119, implemented in 2012. These include limits on non-emergency conditions, Medicare fee schedules, fraud investigation, etc. Though the benefits of many of these limits have eroded, removal of these items as losses are paid through other coverages could increase payments, particularly for medical treatment. As the amount of adverse loss impact is uncertain, we have not included any provision for this potential increase in our analysis.

The explanation of the expected flow of losses to each of the main coverages is provided below along with a listing of the key assumptions and the sources of these assumptions. In addition:

- Details of the expected flow of loss to each coverage are provided on Exhibit 3.
- Assumed changes to losses due to PIP repeal, mandated higher BI limits and an adjustment for fixed expenses to convert the changes to a premium basis are provided on Exhibit 2.
- Average rates by coverage on a 2017 level are estimated on Exhibit 1.

The impact of applying our estimated premium changes to current average rates are provided on the Summary Exhibits.

- Summary Exhibit A provides our estimate of the change in average rates resulting from the implementation of HB19.
- Summary Exhibit B provides the impact of HB19 with MP available at various mandatory limits.
- Summary Exhibit C provides the impact on average rates of HB19, mandatory MP coverage and the various reforms suggested by PCI.

AUTO BODILY INJURY COVERAGE

To determine an estimate of the current PIP losses to be covered by BI in the new environment post PIP repeal, the first critical assumption is to estimate the amount of PIP claims related to either at-fault or non at-fault claimants. According to a survey of PCI member insurance companies (see Appendix A for details of the survey), the average amount of PIP losses related to at-fault claimants was 30% vs. 70% for non at-fault claimants.

Any losses related to non at-fault claimants would be expected to bring BI claims post PIP repeal. Some of the current PIP losses, those related to claims that have breached the tort threshold, are or could be already connected to current BI claims. We have assumed that any loss for connected BI claims reflect an offset for PIP loss payments. Therefore, any PIP losses which become BI losses would not have to be adjusted for non-economic damages, comparative negligence or co-insurance amounts, as these amounts would be included in the BI losses before the PIP offset. However, PIP losses related to claims for which the tort threshold was not breached but which would be eligible to bring a BI claim in the future as the claimant was not at fault, do need to reflect these adjustments.

In addition to PIP losses moving to BI coverage, some current BI losses would increase as well if PIP were repealed. In the current system, PIP claimants can recover liabilities incurred for claims with liabilities greater than the \$10,000 PIP limit through a BI claim. However, these claims are not eligible for any provisions for non-economic damages. In the new tort environment, these claims would be eligible for such damages so we have increased the estimated current amount of BI claims related to expenses greater than the \$10,000 PIP for a non-economic loss component. The estimated amount of BI claims for non-tort losses and the adjustments for non-economic damages were both based on data obtained through the survey of PCI members.

Aside from the repeal of PIP, HB19 also mandates BI coverage at a minimum limit of \$25,000/\$50,000. BI coverage is currently optional, but, based on data obtained from the NAIC, we estimate that 93% of insured drivers purchase BI. Therefore, 7% of insured drivers will see an increase in the amount of their insurance premium as they will now be purchasing BI for the first time. Also, many of those who do currently purchase BI will see a rate increase as they purchase limits lower than the mandated \$25,000/\$50,000 limit. To estimate the impact of the mandated \$25,000/\$50,000 coverage on policyholders, we estimated the average rate for \$25,000/\$50,000 coverage and assumed all drivers currently without BI coverage would purchase this minimum amount. We also assumed all drivers currently purchasing BI insurance at limits below \$25,000/\$50,000 would move up to this minimum limit. We weighted together the average rate for those drivers purchasing \$25,000/\$50,000 for the first time with the average overall rate for all drivers assuming a minimum \$25,000/\$50,000 limit to determine the estimated revised BI average rate. The distribution of premium by policy limit and current increased limits factors used to determine the proper adjustments were based on information provided in our survey of PCI member companies. We also decreased the current BI increased limits factor to reflect the impact of the influx of lower severity PIP claims into the BI coverage.

The impact of PIP losses shifting to BI, the increase in BI losses due to more non-economic damages, and the impact of mandatory BI coverage at higher minimum limits were aggregated to determine the overall increase to BI average rates of \$243 or 66%. We estimate these changes could result in at least an additional 81,000 claims for BI coverage, on top of the current roughly 135,000 annual claims, as per the NAIC.

UNINSURED MOTORIST COVERAGE

To determine the potential increase to uninsured motorist (UM) coverage losses after the repeal of PIP, we again started with our estimate of PIP losses related to non at-fault claimants. If the at-fault party to the accident was uninsured, no BI coverage would be available so the claimant would likely turn to uninsured motorist coverage, particularly if there were non-medical expenses involved and a potential to recover non-economic damages. According to Insurance Research Council (IRC) data as of 2014, approximately 24% of Florida drivers do not carry BI – either because they are uninsured or because they only carry mandatory PIP and PD coverages. We assumed that as BI becomes mandatory as part of HB19, the number of uninsured drivers will approach 20%. The countrywide value is 13%, as estimated by IRC.

Not all claimants injured by uninsured motorists carry UM coverage. Based on ISS data, we estimate that only 58% of insured Florida drivers carry UM coverage. We assumed this level of coverage would increase by 10% in the period after the implementation of HB19 due to the removal of PIP. Note that according to NAIC data, nearly 90% of insureds carry UM on a countrywide basis.

We estimate that the overall increase in UM average rates is \$85 or 48% as shown on Summary Exhibit A.

UM coverage is currently provided in conjunction with UIM coverage, with the majority of losses for the combined coverage related to UIM. It is possible that as minimum BI limits increase to \$25,000/\$50,000 due to HB19, there may be a decrease in UIM losses. We accounted for this possibility in our model results as shown on Exhibits 2 and 4.

OPTIONAL MEDICAL PAYMENTS COVERAGE

We estimate that 27% of insured Florida drivers purchase optional medical payments coverage based on ISS data. This coverage is generally used to cover co-insurance costs and excess losses associated with PIP medical losses. Based on data provided from our survey of PCI members, we estimate the average limit purchased for optional MP to be close to \$5,000.

Post repeal of PIP, we believe losses for optional MP coverage will increase due to the following loss flows:

- PIP medical losses where the claimant is at-fault (and therefore cannot bring a BI or UM claim) but carries optional MP; and
- PIP medical losses where the claimant is not at-fault, is injured by an uninsured driver, but does not carry UM coverage.

Our estimated overall increase to the optional MP average rate is \$47 or 115% of the current average rate as shown on Summary Exhibit A.

OUT OF AUTO INSURANCE SYSTEM

While payment for the majority of current PIP claim costs will stay within the auto insurance system but likely be paid through a different coverage, some payments will no longer be covered by auto insurance. Specifically, these are costs related to at-fault claimants without optional medical payments coverage and those claimants not at-fault and who do not carry UM coverage but who are injured by an uninsured motorist. These costs will likely be borne by health insurers, healthcare providers and current claimants themselves. In the current system, we estimate that \$679 million of PIP losses leave the system due to coinsurance provisions. Post HB19, we estimate that \$784 million of losses will leave the system, an increase of \$105 million. Note that although a greater amount of losses will no longer be covered by the auto insurance system, the total amount of losses covered by the system will increase due to the inflow of losses previously part of co-insurance provisions, new payments for non-economic damages and a greater number of insureds with BI and UM coverage.

Reasonability Test of Model Results

As a test of the reasonability of our model results, we reviewed the impact of no-fault repeal on claims and losses for BI and other coverages in other states which have repealed PIP coverages. We focused on the results for the most recent PIP repeal which occurred in Colorado in 2003.

To determine the impact of the repeal of no-fault on BI coverage in Colorado, we relied on Fast Track Monitoring System reports (expedited reports that represent the data of major carriers) to review the claim frequency, claim severity and pure premium at the time of repeal and five years later. We compared the changes in Colorado to those experienced on a countrywide basis during the same time period. As shown on Exhibit 7, five years after the repeal of no-fault coverage in Colorado, the frequency for BI claims increased by 95%, the severity decreased by 24% and the pure premium increased by 48%.

During this same time frame, on a countrywide basis, the claims frequency decreased by 22%, severity increased by 21% and pure premium decreased by 5%. After taking countrywide trends into account, it appears that the BI pure premiums increased by over 50% more in Colorado than on a countrywide basis in the same time frame, likely due to the repeal of no fault. This result is consistent with the magnitude of our indicated increase for BI losses shown on Exhibit 2.

There are some caveats in drawing a direct comparison between the impact in Colorado and the potential impact in Florida of PIP repeal. These include:

- **Timing:** The Colorado repeal occurred nearly 15 years ago in a different social and economic environment.
- **Tort Threshold:** There was a different tort threshold in Colorado at the time of the repeal than currently exists in Florida. (The Colorado threshold had several injury measures and a medical expense trigger of only \$2,500.) As the threshold controls the amount of claims that can be brought after an accident, a weaker threshold allows more BI claims to be brought even before repeal of PIP. To the extent that the current Florida verbal threshold can be considered weaker or stronger than the Colorado threshold, the impact on BI could be greater or less than experienced in Colorado.
- **PIP Limit:** The current PIP limit for Florida is \$10,000 with co-insurance provisions while the Colorado PIP limit on medical expenses was \$25,000. The higher limit might lead to the expectation of a greater volume of PIP losses to move to BI in Colorado than in Florida post PIP repeal.
- **Fraud & Abuse:** A PIP system with a great amount of fraud and abuse that could be exposed in a tort setting might lead to less than expected losses flowing to BI from PIP. It is unclear the extent of fraud and abuse in the Colorado system prior to repeal and how it compares to the current level of fraud and abuse in the Florida PIP system.

Proposed Introduction of Mandatory Medical Payments Coverage

Currently MP is an optional coverage, purchased by approximately 27% of insured drivers. A possible addition to HB19 would be to introduce mandatory MP coverage to replace first party medical expense coverage formerly provided by PIP.

To estimate the impact of losses flowing to mandatory MP coverages, we relied on our model but increased the number of policyholders (and therefore claimants) carrying MP to 100% of insured drivers. We adjusted losses to reflect only medical expenses and assumed only losses from at-fault drivers and non at-fault drivers with accidents involving at-fault drivers without BI would rely on MP.

For this exercise, we assumed that all MP losses are subject to subrogation. Therefore, any losses that can be subrogated would be effectively transferred from MP to another coverage such as BI or UM.

We tested the impact of mandatory MP at three different limits, \$1,000, \$5,000, and \$10,000. We estimated the impact of these limits by analyzing the PIP size of loss distributions provided by PCI member companies in our survey. The calculation of the average rates for each of these proposed limits are provided on Exhibit 6 of this report.

Note that our estimated average rate for the mandatory \$5,000 MP coverage is similar to our estimate of the average rate for the current optional MP coverage as the average limit for the optional coverage

purchased today is nearly \$5,000. However, because the proposed MP coverage is mandatory, the cost of the coverage has a larger impact on the overall estimated average rate (it increases it) as more insureds would purchase the cover than in the current environment where the coverage is optional.

Other Proposed Changes to Current Florida Regulations

PCI has asked us to review the following three possible changes to the Florida insurance system:

- Bad Faith Reforms for Time Limited Demands; and
- “No Pay, No Play” for Uninsured Motorists;

A discussion of these possible changes and their estimated impact is provided below.

Bad Faith Reforms for Time Limited Demands

Tort liability for bad faith has been shown in numerous studies to increase loss costs, estimated here as a 13.4% increase in private passenger auto premium. PCI has a model reform for bad faith including specified time frames and written communication. Based on discussions with industry claim experts and legal personnel, it is believed that this type of reform could decrease the costs of bad faith by 50%, or a total of 6.7% of premium.

TORT LIABILITY FOR BAD FAITH INCREASES LOSS COSTS

Many analyses have been performed to estimate the impact of allowing first and third party bad faith lawsuits. While the studies varied in their approach, methods, and data, they all generally conclude that the presence of tort liability for insurer bad faith increases settlement amounts. Some specific examples:

- The increase in claim settlements is statistically significant even after accounting for changes in claimed loss amounts when bad faith liability is expanded (Tennyson/Asmat¹);
- The positive correlation that exists between a bad-faith remedy and higher settlement payments exists for both economic and non-economic damages (Browne, Pryor, and Puelz²); and
- The impact of tort liability on settlement amounts is greatest for small claims. (Tennyson/Asmat¹)

Most of the studies do not provide specific estimates of the resulting increase in costs.

Milliman previously studied the potential effect of bad faith reforms for Florida private passenger auto³. That study is updated below for more recent data and a revised reform proposal. These estimates are independent of HB19 and assume impacts for PIP.

PCI'S PROPOSED MODEL REFORM FOR BAD FAITH

In October of 2017, the PCI Claims Committee approved a Time Limit Demand Reform Model. The reform model proposes that policyholders and their insurers are entitled to the opportunity to timely and fairly

¹ Asmat, Daniel P., and Tennyson, Sharon. Does the Threat of Insurer Liability for “Bad Faith” Affect Insurance Settlements? *The Journal of Risk and Insurance*, 2014, Vol. 81, No. 1. 1-26

² Browne, Mark. J., Pryor, Ellen S., and Puelz, Bob. The Effect of Bad-Faith Laws on First Party Insurance Claims Decisions. The University of Chicago. 2004.

³ Milliman, Review of Florida “Bad Faith” Claim Law, February 29, 2016

investigate claims and that tactics such as unreasonable time-limited demands designed to create subsequent claims for extra-contractual damages be eliminated.

The model reform proposes that a time-limited demand to settle any claim shall remain open for 45 to 90 days. The demand shall be in writing and specify several relevant details of the claim and include required documentation. Attempts to seek clarification or further documentation shall extend the time limit by 30 days. The reform would apply to both first-party and third-party claims for bad faith.

BAD FAITH INCREASES FLORIDA PREMIUM 13.4% AND PROPOSED REFORM COULD SAVE 6.7%

Based on statutory data detailed in the figure below, Florida 2016 Private Passenger loss & loss adjustment expense (LAE) was \$13.5B. Based on by-line estimates supported below, an estimated \$2.2B of that loss & LAE were due to unreasonable time-limited demands designed to create subsequent claims for extra-contractual damages. The effect on premium is based on the loss amount plus related expenses, after adjusting for fixed expenses, and totals \$2.3B, or 13.4% of premium.

The estimated savings from the proposed model with written notice is based on discussions with some industry practitioners and claims experts regarding the impact of the proposal. While there is much uncertainty regarding the ultimate impact, based on these discussions, it seems likely that the proposal could reduce the additional premium and loss amounts caused by the current bad faith laws by up to 50%. We assumed this same decrease would be exhibited on current non-bad faith related losses and premiums, saving 6.7% of premium.

FIGURE 5: FLORIDA BAD FAITH CLAIM LAW AND PROPOSED REFORM, PRIVATE PASSENGER AUTOMOBILE (\$000'S)

	(1) TOTAL 2016 DIRECT FL EARNED PREMIUM ⁴	(2) 10 YEAR AVG. ULTIMATE LOSS & LAE RATIO ⁵	(3) = (1) X (2) FL AY 2016 ESTIMATED LOSS & LAE	(4) ESTIMATED % EFFECT ON LOSS & LAE ⁶	(5) = (3) X (4) DOLLAR EFFECT ON LOSS & LAE	(6) ESTIMATED % EFFECT ON PREMIUM ⁷	(7) = (1) X (6) DOLLAR EFFECT ON PREMIUM
NO-FAULT PIP	3,477,129	82.8%	2,878,605	17.5%	503,756	15.0%	520,209
UM / UIM	1,413,989	82.8%	1,170,596	17.5%	204,854	15.0%	211,545
BODILY INJURY	4,455,384	82.8%	3,688,471	31.9%	1,175,177	27.2%	1,213,559
PROPERTY DAMAGE	2,903,844	82.8%	2,404,001	5.0%	120,200	4.3%	124,126
PHYSICAL DAMAGE	4,655,103	73.0%	3,396,519	5.0%	169,826	4.3%	199,315
TOTAL PP AUTOMOBILE	16,905,449		13,538,192		2,173,813		2,268,753
EFFECT OF BAD FAITH CLAIM LAW AS PERCENT OF LOSS (3) AND PREMIUM (1)					16.1%		13.4%
ESTIMATED SAVINGS FROM PROPOSED MODEL WITH WRITTEN NOTICE					50%		50%
ESTIMATED EFFECT OF PROPOSED MODEL WITH WRITTEN NOTICE					1,086,907		1,134,376
EFFECT OF PROPOSED MODEL AS PERCENT OF LOSS (3) AND PREMIUM (1)					8.0%		6.7%

⁴ Florida State page for the year ended December 31, 2016 of the P&C Industry

⁵ NAIC 2005-2014 Profitability by Line by State

⁶ Selected by Milliman

⁷ Selected by Milliman and includes an adjustment for fixed expenses

SUPPORT FOR BAD FAITH INCREASE ON FLORIDA PIP AS 17.5% OF LOSSES

The current bad faith law environment is generally accepted to have started in 1995. The analysis compares IRC reports relying on data from 1997 vs. 2012 and assumes No-Fault claims have a greater level of attorney involvement when compared to the past due to the current bad faith law in Florida.

The IRC data provides the percentage of Florida PIP claimants who use attorneys versus the percentage who do not use attorneys. Attorney involvement has increased progressively in Florida since 1997 according to IRC (33% in 1997, 35% in 1998, 41% in 2007 and 51% in 2012). Note that the prior amount used of 33% is consistent with the current attorney involvement on a countrywide basis for PIP claims (28%) as provided in the most recent IRC report.

The analysis assumes the no-fault claims that now have attorney involvement cost more than they would have and quantifies that by comparing the same injury types of PIP claims with attorney involvement versus without attorney involvement. The average economic PIP loss for automobile accidents causing strains and sprains (the most frequent injury type in automobile accidents) equals \$15,402 when attorneys are involved, versus \$6,434 when no attorneys are involved. According to an IRC report, claimants with attorneys are more likely to report large numbers of visits to providers, to receive treatment at pain centers, to visit chiropractors, and to undergo magnetic resonance imaging.

Given these assumptions, the current bad faith law is estimated to increase annual automobile no-fault losses by 17.5%. There may be other reasonable estimates and this approach may not capture the entire impact of the current bad faith environment in Florida.

FIGURE 6: ESTIMATING IMPACT OF FL BAD FAITH CLAIM LAW ON PERSONAL INJURY PROTECTION (PIP) LOSSES

COMPONENT	VALUE	SOURCE
1 COUNTRYWIDE PIP AVERAGE CLAIMED LOSSES WITH ATTORNEY	\$15,402	IRC ⁸
2 COUNTRYWIDE PIP AVERAGE CLAIMED LOSSES WITHOUT ATTORNEY	\$6,434	IRC ⁸
3 FL PRIOR PIP % CASES WITH ATTORNEY	33%	IRC ⁹
4 FL PRIOR PIP TOTAL AVERAGE CLAIMED LOSS	\$9,393	(1) * (3) + (2) * [100%-(3)]
5 FL CURRENT PIP % CASES WITH ATTORNEY	51%	IRC ¹⁰
6 FL CURRENT PIP AVERAGE CLAIMED LOSSES	\$11,008	(1) * (5) + (2) * [100%-(5)]
7 IMPACT OF ATTORNEY INVOLVEMENT – CALCULATED	17.2%	(6) / (4) -1
8 IMPACT OF ATTORNEY INVOLVEMENT – SELECTED	17.5%	MILLIMAN

SUPPORT FOR BAD FAITH INCREASE ON FLORIDA UM/UIM AS 17.5% OF LOSSES

The UM/UIM analysis compares Florida data from an earlier time to the current bad faith environment and assumes that UM/UIM claims now have more attorney involvement than in the past due to the current bad faith law.

UM/UIM claims currently have attorney involvement in approximately 63% of total claims. Only 47% of Florida UM/UIM claims had attorney involvement in 2006, and probably an even lower percentage in the period prior to the start of the current bad-faith environment in 1995 than in 2006. Note that the prior amount

⁸ IRC Report: Attorney Involvement in Auto Injury Claims, July 2014, Figure 22 (page 32).

⁹ IRC Report: Injuries in Auto Accidents - An Analysis of Auto Insurance Claims, June 1999, Figure 6-13 (page 68).

¹⁰ IRC Report: Attorney Involvement in Auto Injury Claims, July 2014, Figure 10 (page 15).

of 47% is consistent with the current level of attorney involvement on a countrywide basis for UM/UIM claims as provided in the most recent IRC report.

Note that the data from Florida Senate Interim Report 2012-132, issued in November 2011 included BI claim information, which was used as a proxy for UM/UIM claims.

Given these assumptions, the current bad faith law increases annual automobile UM/UIM losses by 17.5%. Other reasonable estimates may also be determined. For example, a Berkeley Research Group¹⁴ study found average pure premiums for states with first party causes of action are 81% higher than the average for states without a defined first-party bad faith cause of action. In addition, they find that Florida's average UM/UIM pure premium is 188% higher than the average for states without a defined first-party bad faith cause of action.

FIGURE 7: ESTIMATING IMPACT OF FL BAD FAITH CLAIM LAW ON UNINSURED & UNDERINSURED (UM/UIM) LOSSES

COMPONENT	VALUE	SOURCE
1 COUNTRYWIDE UM/UIM AVERAGE CLAIMED LOSSES WITH ATTORNEY	\$8,748	IRC ¹¹
2 COUNTRYWIDE UM/UIM AVERAGE CLAIMED LOSSES WITHOUT ATTORNEY	\$2,717	IRC ¹¹
3 FL PRIOR UM/UIM % CASES WITH ATTORNEY	47%	THE FLORIDA SENATE ¹²
4 FL PRIOR UM/UIM TOTAL AVERAGE CLAIMED LOSS	\$5,552	(1) * (3) + (2) * [100%-(3)]
5 FL CURRENT UM/UIM % CASES WITH ATTORNEY	63%	THE FLORIDA SENATE ¹²
6 FL CURRENT UM/UIM AVERAGE CLAIMED LOSSES	\$6,517	(1) * (5) + (2) * [100%-(5)]
7 IMPACT OF ATTORNEY INVOLVEMENT – CALCULATED	17.4%	(6) / (4) -1
8 IMPACT OF ATTORNEY INVOLVEMENT – SELECTED	17.5%	MILLIMAN

SUPPORT FOR BAD FAITH INCREASE ON FLORIDA BODILY INJURY AS 31.9% OF LOSSES

This estimate is the average of studies from Insurance Research Council (IRC) and Berkeley Research Group (BRG) which applied reasonable analyses to individual claim information.

FIGURE 8: ESTIMATING IMPACT OF FL BAD FAITH CLAIM LAW ON BODILY INJURY (BI) LOSSES

COMPONENT	VALUE	SOURCE
1 AVERAGE BODILY INJURY TOTAL LOSS	\$195	IRC ¹³
2 LOSS PORTION NOT RELATED TO BAD FAITH	\$116	IRC ¹³
3 % LOSS RELATED TO BAD FAITH	40.5%	[(1) – (2)] / (1)
4 BODILY INJURY PURE PREMIUM	\$143.48	BRG ¹⁴
5 BAD FAITH PURE PREMIUM	\$33.30	BRG ¹⁴
6 % PURE PREMIUM RELATED TO BAD FAITH	23.2%	(5) / (4)
7 AVERAGE % RELATED TO BAD FAITH	31.9%	[(6) + (3)] / 2

¹¹ IRC Report: Attorney Involvement in Auto Injury Claims, July 2014, Figure 21 (page 31)

¹² The Florida Senate: Insurance Bad Faith, November 2011 (page 14).

¹³ IRC Report: Third-Party Bad Faith in Florida's Automobile Insurance System, August 2014, Page 7

¹⁴ BRG Report: The Impact of Bad Faith Lawsuits on Consumers in Florida and Nationwide, September 2010, Page 18

SUPPORT FOR BAD FAITH INCREASE ON FLORIDA PROPERTY DAMAGE AND PHYSICAL DAMAGE AS 5% OF LOSSES

Increased attorney involvement on auto property damage and physical damage claims should be less than on No-Fault/PIP, BI and UM/UIM claims because the cost of property damage and physical damage claims are better defined. However, there will still be disputes over the cost of repairs and the cash value of damaged or stolen property so some increase could be expected so we judgmentally estimated an increase of 5%.

Proposed No Pay, No Play Impact

No Pay, No Play laws prohibit an injured driver from recovering non-economic losses like pain and suffering if the injured driver was violating certain laws, such as being an uninsured motorist or driving under the influence. A previous Insurance Research Council (IRC) study¹⁵ applied a framework to 2007 data to estimate the potential impact of No Pay, No Play laws. Applying this framework to updated Florida data shows a potential to reduce loss costs up to 1.9% of premium by implementing No Pay, No Play laws for uninsured motorists in Florida.

PREVIOUS STUDY PROVIDED FRAMEWORK AND EARLIER ESTIMATE

The methodology developed in the previous study is essentially:

- Determine the number of uninsured drivers filing Bodily Injury claims
- Multiply that number of drivers by the average compensation for noneconomic losses
- Represent that total noneconomic loss as a dollar per driver

UPDATED ESTIMATE 1.9% OF EARNED PREMIUMS COULD BE IMPACTED BY NO PAY, NO PLAY

The following calculations show the potential impact of No Pay, No Play laws in Florida.

FIGURE 9: ESTIMATING IMPACT OF NO PAY, NO PLAY FOR FLORIDA PERSONAL AUTO INSURANCE

COMPONENT	VALUE	SOURCE
1 NUMBER OF BODILY INJURY (BI) CLAIMANTS	134,505	NAIC AUTO INSURANCE DATABASE ¹⁶ , TABLE 8B
2 PERCENTAGE OF BI CLAIMANTS WHO WERE DRIVERS	72%	SEE SUPPORT BELOW
3 NUMBER OF BI CLAIMANTS WHO WERE DRIVERS	96,844	(1) * (3)
4 PERCENTAGE WHO WERE UNINSURED	24.9%	SEE SUPPORT BELOW
5 NUMBER OF BI CLAIMANTS WHO WERE UNINSURED DRIVERS	24,114	(3) * (4)
6 AVERAGE COMPENSATION FOR NON-ECONOMIC LOSS	\$10,063	SEE SUPPORT BELOW
7 NON-ECONOMIC LOSS PAYMENTS AWARDED TO UNINSURED DRIVERS	\$242,658,592	(5) * (6)
8 PERSONAL AUTO BI + BI/PD CSL EARNED PREMIUMS	\$3,577,030,321	NAIC AUTO INSURANCE DATABASE ¹⁶ , TABLES 8A AND 14A
9 % OF BI + BI/PD CSL EARNED PREMIUM FOR NONECONOMIC LOSS PAYMENTS AWARDED TO UNINSURED BODILY INJURY CLAIMANTS	6.8%	(7) / (8)
10 PERSONAL AUTO EARNED PREMIUMS	\$12,865,333,873	NAIC AUTO INSURANCE DATABASE ¹⁶ , TABLES 26A, 29A, AND 32A
11 % OF EARNED PREMIUM FOR NONECONOMIC LOSS PAYMENTS AWARDED TO UNINSURED BODILY INJURY CLAIMANTS	1.9%	(7) / (10)

¹⁵ Insurance Research Council, "The Potential Effects of No Pay, No Play Laws," November 2012

¹⁶ National Association of Insurance Commissioners, "Auto Insurance Database Report 2013/2014", January 2017

SUPPORT FOR PERCENTAGE OF BI CLAIMANTS WHO WERE DRIVERS

The IRC No Pay, No Play study¹⁵ showed an example for Alabama of 72% of BI Claimants who were drivers. This was assumed to apply to Florida and held constant over time. Holding constant over time is supported by data from Bureau of Transportation Statistics¹⁷ showing effectively no change in US commuting behavior by automobile over time:

FIGURE 10: COMMUTING BY MODE OF TRANSPORTATION

	2010	2013	2014
% OF PERSONAL VEHICLE DRIVEN BY SELF	76.6%	76.4%	76.5%
AVERAGE PASSENGERS PER PERSONAL VEHICLE	1.15	1.15	1.14

SUPPORT FOR PERCENTAGE WHO WERE UNINSURED

The IRC Uninsured Motorists¹⁸ studies showed uninsured motorist percentages in Florida of 24% for 2009 and 26.7% for 2015. Linear interpolation between the publications yields 24.9% for 2013, the same timeframe as the NAIC figures for number of claimants and premium dollars.

SUPPORT FOR AVERAGE COMPENSATION FOR NON-ECONOMIC LOSSES

Applying the assumption that Alabama and Florida had the same 72% of BI claimants who were drivers in 2007 yields \$8,935 average compensation for non-economic loss for Florida for 2007. Increasing that figure for cumulative inflation of 12.63%¹⁹ from June 2007 to June 2013 yields \$10,063 average compensation for non-economic losses for Florida 2013.

UPDATED ESTIMATE IS COMPARABLE TO SIMILAR STUDIES

Rand released studies on the potential effect of No Pay, No Play laws for California in 1996 and for Texas in 1998, both using 1992 data^{20,21}. Three main factors cause differences between the estimates of the percent of premium potentially affected from the Rand studies and this estimate for Florida:

- The proposed laws in California and Texas included limitations for claimants who had been driving under the influence in addition to uninsured motorists. The proposal being considered for Florida includes limitations only on uninsured motorists.
- Rand assumed insurance carriers would reduce all expenses proportional to the reduction in loss costs. Small percentage changes in loss costs may not cause carriers to reduce fixed expenses, and therefore that impact has been excluded from this study.
- The percentages of uninsured motorists for California and Texas differ from Florida.

Adjusting for these three factors produces results of 2.3% and 2.0% that are comparable to the 1.9% estimate for Florida.

¹⁷ Bureau of Transportation Statistics, "Passenger Travel Facts and Figures 2016, Table 2-5," sourced online November 2017

¹⁸ Insurance Research Council, "Uninsured Motorists Study" released in 2011 and 2017

¹⁹ Bureau of Labor Statistics CPI-U South Region, retrieved online November 2017

²⁰ Rand, Stephen J. Carroll and Allan F. Abrahamse, "The Effects of Proposition 213 on the Costs of Auto Insurance in California," September 1996

²¹ Rand, Stephen J. Carroll and Allan F. Abrahamse, "The Effects of a No-Pay/No-Play Plan on the Costs of Auto Insurance in Texas," 1998

FIGURE 11: ADJUSTMENTS TO RAND STUDIES OF NO PAY, NO PLAY

	CA	TX
ESTIMATE OF % OF PREMIUM IMPACTED	5%	3%
% OF BENEFITS FROM DUI CLAIMANTS	15.4%	22.2%
% OF BENEFITS FROM EXPENSE REDUCTIONS	34.3%	31.9%
RATIO OF UNINSURED DRIVERS IN FL TO STUDY STATE	83%	124.5%
ADJUSTED % OF PREMIUM IMPACTED	2.3%	2.0%

Adjusted % = (Original Percent)*(1-DUI Claimants)*(1-Expense Reductions)*(Ratio of Uninsured Drivers)

Data Resources

The following data resources were relied upon in the course of our analysis:

- Independent Statistical Service, Inc. (ISS) – Florida Automobile Experience Data through 2015
- Fast Track Private Passenger Auto Data
- Florida Office of Insurance Regulation – 2016 Annual Report
- Florida Office of Insurance Regulation – 2014 – Report on Review of the Data Call Pursuant to HB 119 – Motor Vehicle Personal Injury Protection (PIP) Insurance
- Insurance Information Institute – No Fault Auto Insurance in Florida: Trends, Challenges, and Costs – July 2011
- PCI member survey – November 2017 – See Appendix A for survey questions
- NAIC – Auto Insurance Database Report – January 2017
- Insurance Research Council (IRC):
 - Colorado Auto Insurance – Transition from No-Fault to Tort – February 2008
 - Third Party Bad Faith in Florida – August 2014
 - Auto Injury Insurance Claims: Countrywide Patterns in Treatment, Cost, and Compensation – 2014 – Report and underlying data for Florida
 - Auto injury claim database describing claims closed in Florida in 2012
 - News release: Fraud and Buildup and Auto Injury Insurance Claims – February 2015

Statement of Qualifications

Tom Ryan, Dionne Schaaffe and Steve Walsh of Milliman meet the actuarial qualification standards to provide this analysis.

Limitations

DATA

In performing this analysis, we relied on publicly available data and other information provided by PCI member companies. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

UNCERTAINTY

During the course of our review, we applied generally accepted actuarial procedures. However, due to the uncertainty involved in projecting future events, it is likely that actual results will vary from our projections, perhaps materially. There may be greater uncertainty involved in our analysis as we have relied on a survey of PCI members for several key assumptions. To the extent the participating members do not represent an unbiased sample of the entire market of personal auto insurers in Florida, our results may be biased as well.

DISTRIBUTION

Milliman's work is prepared solely for the benefit of PCI. Except as set forth below, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to legally benefit any third party recipient of its work product, even if Milliman consents to the release of its work product to a third party. PCI may distribute or submit for publication the final, non-draft version of reports that, by mutual written agreement, are intended for general, public distribution. PCI shall not edit, modify, summarize, abstract or otherwise change the content of any final report and any distribution must include the entire report. Notwithstanding the foregoing, no Milliman report shall be used by PCI in connection with any offering, prospectus, securities filing, or solicitation of investment. Professional reviewers engaged by PCI or independent journals to provide peer review of Milliman's work must agree to terms of confidentiality that are reasonable and customary in the industry. Any piece of Milliman draft work to be provided to peer reviewers must receive prior Milliman approval, and Milliman shall not unreasonably withhold such approval. The copyright to all report content shall remain with Milliman unless otherwise agreed. Press releases mentioning such reports may be issued by Milliman or PCI upon mutual agreement of PCI and Milliman to their content. Mentions of Milliman work will provide citations that will allow the reader to obtain the full report.

USE OF MILLIMAN NAME

Any reader of this report agrees that they shall not use Milliman's name, trademarks or service marks, or refer to Milliman directly or indirectly in any third party communication without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Thomas Ryan
tom.ryan@milliman.com

Dionne Schaaffe
dionne.schaaffe@milliman.com

Steve Walsh
steve.walsh@milliman.com

© 2017 Milliman, Inc. All Rights Reserved. The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
with Optional Medical Payment Coverage

	(1)	(2)	(3) (1) x [1.0 + (2)]	(4) (3) - (1)
	2017 Pre HB19 Rate	Estimated Change (%)	2017 Post HB19 Rate	Estimated Change (\$)
Bodily Injury	\$367.22	66.2%	\$610.19	\$242.97
Property Damage	200.97	0.0%	200.97	-
Personal Injury Protection	270.21	-100.0%	-	(270.21)
Optional Med Payments	40.74	115.2%	87.67	46.92
Uninsured/Underinsured Motorists	176.79	48.2%	262.00	85.21
Total Liability	933.52	7.2%	1,000.51	66.99
Collision	320.63	0.0%	320.63	0.00
Comprehension	88.55	0.0%	88.55	0.00
Total Physical Damage	398.11	0.0%	398.11	0.00
Grand Total ≡ Average Coverage	1,252.53	5.3%	1,319.53	66.99
<i>Mandatory Coverage - Average Limits</i>	<i>471.18</i>	<i>72.2%</i>	<i>811.16</i>	<i>339.98</i>
<i>Full Coverage</i>	<i>1,465.10</i>	<i>7.2%</i>	<i>1,570.00</i>	<i>104.90</i>
<i>Mandatory Coverage - Minimum Limits (See Exhibit 8)</i>	<i>459.80</i>	<i>50.1%</i>	<i>690.06</i>	<i>230.26</i>

Note:

(1) See Exhibit 1. Totals are calculated as the weighted average using Pre HB19 exposures.

(2) See Exhibit 2. Total = (3) / (1) - 1.0

(3) Totals are calculated as the weighted average using projected Post HB19 exposures.

Mandatory Coverage - Pre HB19 = Personal Injury Protection & Property Damage
- Post HB19 = Bodily Injury & Property Damage

Full Coverage - Pre & Post HB19 = Sum of all coverages

Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
with Mandatory Medical Payment Coverage

	(1)	(2)	(3) (1) x [1.0 + (2)]	(4) (3) - (1)
	2017 Average Rate	Estimated Change (%)	2017 Post HB19 Rate	Estimated Change (\$)
\$1,000 Limit Med Pay				
Bodily Injury	\$367.22	66.2%	\$610.19	\$242.97
Property Damage	200.97	0.0%	200.97	-
Personal Injury Protection	270.21	-100.0%	-	(270.21)
Med Payments (\$1,000 Limit)	40.74	27.6%	52.00	11.25
Uninsured/Underinsured Motorists	176.79	48.2%	262.00	85.21
Total Liability	933.52	8.6%	1,013.70	80.18
Collision	320.63	0.0%	320.63	0.00
Comprehension	88.55	0.0%	88.55	0.00
Total Physical Damage	398.11	0.0%	398.11	0.00
Grand Total	1,252.53	6.4%	1,332.72	80.18
\$5,000 Limit Med Pay				
Bodily Injury	367.22	66.2%	610.19	242.97
Property Damage	200.97	0.0%	200.97	-
Personal Injury Protection	270.21	-100.0%	-	(270.21)
Med Payments (\$5,000 Limit)	40.74	115.2%	87.67	46.92
Uninsured/Underinsured Motorists	176.79	48.2%	262.00	85.21
Total Liability	933.52	12.4%	1,049.37	115.85
Collision	320.63	0.0%	320.63	0.00
Comprehension	88.55	0.0%	88.55	0.00
Total Physical Damage	398.11	0.0%	398.11	0.00
Grand Total	1,252.53	9.2%	1,368.39	115.85
\$10,000 Limit Med Pay				
Bodily Injury	367.22	66.2%	610.19	242.97
Property Damage	200.97	0.0%	200.97	-
Personal Injury Protection	270.21	-100.0%	-	(270.21)
Med Payments (\$10,000 Limit)	40.74	190.3%	118.26	77.52
Uninsured/Underinsured Motorists	176.79	48.2%	262.00	85.21
Total Liability	933.52	15.7%	1,079.96	146.45
Collision	320.63	0.0%	320.63	0.00
Comprehension	88.55	0.0%	88.55	0.00
Total Physical Damage	398.11	0.0%	398.11	0.00
Grand Total	1,252.53	11.7%	1,398.98	146.45

Note:

- (1) See Exhibit 1
- (2) See Exhibit 2

For Med Payments

- (2) = (3) / (1) - 1
- (3) See Exhibit 6

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida**
with Medical Payment Limits & Bad Faith & No Pay NO Play Effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	2017 Post HB19 Rate	Estimated % Effect of Bad Faith on Premium	Estimated Savings from Proposed Model with Written Notice	Post HB19 Rate with Bad Faith Reform Effect	No Pay / No Play Savings	Post HB19 Rate with Bad Faith & No Pay No Play Effects	Estimated Change (\$)
Optional Med Pay							
Bodily Injury	\$610.19	27.2%	50.0%	527.09	6.8%	491.24	(118.94)
Property Damage	200.97	4.3%	50.0%	196.67		196.67	(4.30)
Personal Injury Protection	-	15.0%	50.0%	-		-	-
Optional Med Payments	87.67	15.0%	50.0%	81.11		81.11	(6.56)
Uninsured/Underinsured Motorists	262.00	15.0%	50.0%	242.40		242.40	(19.60)
Total Liability	1,000.51			884.54		848.70	(151.81)
Collision	320.63	4.3%	50.0%	313.76		313.76	(6.86)
Comprehension	88.55	4.3%	50.0%	86.66		86.66	(1.90)
Total Physical Damage	398.11			389.58		389.58	(8.52)
Grand Total	1,319.53			1,196.73		1,160.89	(158.64)
\$1,000 Limit Med Pay							
Bodily Injury	\$610.19	27.2%	50.0%	527.09	6.8%	491.24	(118.94)
Property Damage	200.97	4.3%	50.0%	196.67		196.67	(4.30)
Personal Injury Protection	-	15.0%	50.0%	-		-	-
Med Payments (\$1,000 Limit)	52.00	15.0%	50.0%	48.11		48.11	(3.89)
Uninsured/Underinsured Motorists	262.00	15.0%	50.0%	242.40		242.40	(19.60)
Total Liability	1,013.70			875.80		839.95	(173.75)
Collision	320.63	4.3%	50.0%	313.76		313.76	(6.86)
Comprehension	88.55	4.3%	50.0%	86.66		86.66	(1.90)
Total Physical Damage	398.11			389.58		389.58	(8.52)
Grand Total	1,332.72			1,187.98		1,152.14	(180.58)
\$5,000 Limit Med Pay							
Bodily Injury	\$610.19	27.2%	50.0%	527.09	6.8%	491.24	(118.94)
Property Damage	200.97	4.3%	50.0%	196.67		196.67	(4.30)
Personal Injury Protection	-	15.0%	50.0%	-		-	-
Med Payments (\$5,000 Limit)	87.67	15.0%	50.0%	81.11		81.11	(6.56)
Uninsured/Underinsured Motorists	262.00	15.0%	50.0%	242.40		242.40	(19.60)
Total Liability	1,049.37			884.54		848.70	(200.67)
Collision	320.63	4.3%	50.0%	313.76		313.76	(6.86)
Comprehension	88.55	4.3%	50.0%	86.66		86.66	(1.90)
Total Physical Damage	398.11			389.58		389.58	(8.52)
Grand Total	1,368.39			1,196.73		1,160.89	(207.50)
\$10,000 Limit Med Pay							
Bodily Injury	\$610.19	27.2%	50.0%	527.09	6.8%	491.24	(118.94)
Property Damage	200.97	4.3%	50.0%	196.67		196.67	(4.30)
Personal Injury Protection	-	15.0%	50.0%	-		-	-
Med Payments (\$10,000 Limit)	118.26	15.0%	50.0%	109.41		109.41	(8.85)
Uninsured/Underinsured Motorists	262.00	15.0%	50.0%	242.40		242.40	(19.60)
Total Liability	1,079.96			892.04		856.20	(223.76)
Collision	320.63	4.3%	50.0%	313.76		313.76	(6.86)
Comprehension	88.55	4.3%	50.0%	86.66		86.66	(1.90)
Total Physical Damage	398.11			389.58		389.58	(8.52)
Grand Total	1,398.98			1,204.23		1,168.39	(230.59)

Note:

- (1) See Summary, Exhibit B
- (2), (3) See Figure 4 in Report text
- (4) = (1) x [1.0 - (2) x (3)]
- (5) See Figure 8 in Report text
- (6) = (5) x [1.0 - (6)]
- (7) = (6) - (1)

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida**

Estimate of Average Rate by Coverage

	(1)	(2)	(3) = (1) / (2)	(4)	(5)
	2015 Earned Premium	2015 Earned Exposures	2015 Average Rate	2 Year Rate Change	2017 Average Rate
BI	\$1,917,310,098	5,806,410	\$330.21	11.2%	\$367.22
PD	1,113,274,284	6,160,433	180.71	11.2%	200.97
PIP	1,518,122,617	6,248,034	242.98	11.2%	270.21
Med Pay	59,818,765	1,632,740	36.64	11.2%	40.74
UM/UIM	562,735,780	3,539,891	158.97	11.2%	176.79
Total Liab	5,171,261,544	6,160,433	839.43		933.52
Collision	1,244,143,716	4,766,090	261.04	22.8%	320.63
Comprehension	388,806,117	4,936,537	78.76	12.4%	88.55
Physical Damage	1,632,949,833	4,936,537	330.79		398.11
Total	6,804,211,377	6,160,433	1,104.50		1,252.53

Note:

- (1), (2) Based on Florida data from Independent Statistical Service, Inc. (ISS)
(4) Selected by Milliman based on Fast Track data through 2Q 2017
(5) = (1) x [1.0 + (4)]. Totals are weighted averages using (2) as weights.

Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
Effect on Current Auto Insurance Losses of HB19

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	2016 Earned Premiums	2016 Losses	PIP Losses Shifted to:	Other Adjustments	Expected Losses @ Current Limits	% Change in Loss @ Current Limits	Fixed Expense Adjustment	% Change in Premium @ Current Limits	Adjustment for Higher Limits	% Change in Premium @ Higher Limits
BI	\$ 4,604,527,064	\$ 3,303,740,050	\$ 2,005,980,288	\$ 31,724,514	\$ 5,341,444,851	61.7%	0.855	52.7%	1.088	66.2%
PD	2,673,590,243	1,918,296,285			1,918,296,285	0.0%	0.855	0.0%	1.000	0.0%
PIP	3,477,128,763	2,507,864,182	(2,507,864,182)		0	-100.0%	1.000	-100.0%	1.000	-100.0%
Med Pay	143,658,098	103,074,432	138,852,469		241,926,901	134.7%	0.855	115.2%	1.000	115.2%
UM/UIM	1,351,441,340	969,656,779	489,979,332	(79,219,646)	1,380,416,464	42.4%	0.855	36.2%	1.088	48.2%
Total Liab	12,250,345,508	8,802,631,728	126,947,907	(47,495,133)	8,882,084,502	0.9%		-3.2%	1.066	
Coll	3,546,721,106	2,495,821,792			2,495,821,793	0.0%	0.856	0.0%	1.000	0.0%
Comp	1,108,382,290	779,966,789			779,966,790	0.0%	0.855	0.0%	1.000	0.0%
Phys Dam	4,655,103,396	3,275,788,581	0	0	3,275,788,583	0.0%		0.0%	1.000	
Total	16,905,448,904	12,078,420,309	126,947,907	(47,495,133)	12,157,873,085	0.7%		-2.3%	1.047	

Note:

(1) and (2) Page 14 for 2016 P&C Industry for Florida distributed to each segment based on Florida 2015 ISS distribution.

(3) See Exhibit 3

(4) See Exhibit 4

(5) = (2) + (3) + (4)

(6) = (5) / (2) - 1.0

(7) = 1 - [50% x TL&F + Other Acquisition Expenses + General Expenses] / Earned Premium. Source: S&P Global, 2016 IEE - Part III.

(8) = (6) x (7)

(9) See Exhibit 5. UM/UIM ILF set equal to BI

(10) = [1.0 + (8)] x (9) - 1.0

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
Shifting of Current PIP Losses Due to HB19**

PIP Losses shifted to Med Pay

A. At fault Claimant with Med Pay

i. PIP Total losses	\$ 2,507,864,182
ii. Medical Percentage	95.0%
iii. PIP losses - Medical Portion	2,382,470,973
iv. Coinsurance adjustment	99.0%
v. Ground up PIP losses - Medical Portion	2,406,536,336
vi. Percentage at fault	30.2%
vii. Percentage with Med Pay coverage	27.0%
viii. Percentage of losses within Med Pay limit	60.5%
ix. <u>PIP Losses Shifted to Med Pay</u>	<u>118,756,302</u>

Claimant is not at fault and doesn't have UM/UIM but does have Med Pay. At fault

B. driver is uninsured.

i. Ground up PIP losses - Medical Portion	\$ 2,406,536,336
ii. Percentage not at fault	69.8%
iii. Percentage without insurance coverage	20.0%
iv. Percentage without UM/UIM coverage	36.6%
v. Percentage with Med Pay coverage	27.0%
vi. <u>Percentage of losses within Med Pay limit</u>	<u>60.5%</u>
vii. <u>PIP Losses Shifted to Med Pay</u>	<u>20,096,167</u>

A. + B. 138,852,469 5.5%

PIP Losses shifted to UM/UIM

Claimant is not at fault and has UM/UIM. At fault driver is

C. uninsured.

i. PIP Total losses	\$ 2,507,864,182	
ii. Non-Medical Percentage	5.0%	
iii. PIP losses - Non-Medical Portion	125,393,209	
iv. Coinsurance adjustment - Non-Medical Portion	60.0%	
v. Ground up PIP losses - Non-Medical Portion	208,988,682	
vi. Coinsurance adjustment - Medical Portion	80.0%	
vii. Ground up PIP losses - Medical Portion	2,978,088,716	
viii. Total ground up PIP losses	3,187,077,398	
ix. Percentage not at fault	69.8%	
x. Percentage without insurance coverage	20.0%	
xi. <u>Percentage with UM/UIM coverage</u>	<u>63.4%</u>	
xii. <u>PIP Losses Shifted to UM/UIM without Non-Econ and Comp Neg</u>	<u>282,129,963</u>	
xiii. Non-Economic damages	100.0%	
xiv. Comparative Negligence	13.2%	
xv. <u>PIP Losses Shifted to UM/UIM</u>	<u>489,979,332</u>	19.5%

F. PIP Losses shifted:

i. To other auto coverages	2,634,812,089	105.1%
- Amount due to Coinsurance Adjustment	197,357,226	
- Amount due to Non-Economic & Comp Negligence Adjustments	<u>533,069,822</u>	
	<u>1,904,385,041</u>	75.9%
ii. To outside the auto coverage system	784,469,690	

PIP Losses shifted to BI

Claimant is not at fault and at fault driver has insurance. Claim

D. meets tort threshold

i. PIP Total losses	\$ 2,507,864,182
ii. Percentage not at fault	69.8%
iii. Percentage of drivers with BI coverage	80.0%
iv. <u>Claims meet Tort Threshold</u>	<u>64.2%</u>
v. <u>PIP Losses Shifted to BI</u>	<u>898,971,279</u>

Claimant is not at fault and at fault driver has insurance. Claim

E. not at tort threshold

i. Total ground up PIP losses	\$ 3,187,077,398
ii. Percentage not at fault	69.8%
iii. Percentage of drivers with BI coverage	80.0%
iv. <u>Claim not at Tort Threshold</u>	<u>35.8%</u>
v. <u>PIP Losses Shifted to BI without Non-Econ and Comp Neg</u>	<u>637,415,480</u>
vi. Non-Economic damages	100.0%
vii. Comparative Negligence	13.2%
viii. <u>PIP Losses Shifted to BI</u>	<u>1,107,009,009</u>

D. + E. 2,005,980,288 80.0%

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
Shifting of Current PIP Losses Due to HB 19**

Footnotes for Exhibit 3, Sheet 1

PIP Losses shifted to Med Pay

A. At fault Claimant with Med Pay

- i. Page 14 for 2016 P&C Industry for Florida.
- ii. Based on PCI member survey responses
- iii. = A.i. times A.ii.
- iv. Assumes 95% of 20% coinsurance is covered by Med Pay
- v. = A.iii. Divided by A.iv.
- vi. Based on PCI member survey responses
- vii. Based on ISS 2015 data
- viii. Based on PCI member survey responses
- ix. = A.v. times A.vi. times A.vii. times A.viii.

**Claimant is not at fault and doesn't have UM/UIM but does
B. have Med Pay. At fault driver is uninsured.**

- i. See A.v.
- ii. = 1.0 less A.vi.
- iii. Countrywide uninsured motorist based on IRC data.
- iv. Based on ISS 2015 data
- v. Based on ISS 2015 data
- vi. Based on PCI member survey responses
- vii. = Product of A.i. through A.vi.

A. + B. = A.ix. + B.vii. = [A. + B.] / A.i.

PIP Losses shifted to UM/UIM

**Claimant is not at fault and has UM/UIM. At fault driver
C. is uninsured.**

- i. Page 14 for 2016 P&C Industry for Florida.
- ii. Based on PCI member survey responses
- iii. = C.i. times C.ii.
- iv. 60% coinsurance as per current PIP plan
- v. = C.iii. Divided by C.iv.
- vi. 80% coinsurance as per current PIP plan
- vii. = C.i. times [1.0 less C.ii.] divided by C.vi.
- viii. = C.v. + C.vii.
- ix. = 1.0 less A.vi.
- x. = B.iii.
- xi. Based on ISS 2015 data
- xii. = C.viii. times C.ix. times C.x. times C.xi.
- xiii. Based on PCI member survey responses
- xiv. Based on PCI member survey responses
- xiv. = C.xii. times [1.0 + C.xiii.] times [1.0 - C.xiv.] = C.xv. / C.i.

F. PIP Losses shifted:

i. = A. + B. + C. + D. + E. = F.i. / A.i.

PIP Losses shifted to BI

**Claimant is not at fault and at fault driver has
D. insurance. Claim meets tort threshold**

- i. Page 14 for 2016 P&C Industry for Florida.
- ii. = 1.0 less A.vi.
- iii. = 1.0 less B.iii.
- iv. Based on PCI member survey responses
- v. = D.i. times D.ii. times D.iii. times D.iv.

**Claimant is not at fault and at fault driver has
E. insurance. Claim not at tort threshold**

- i. = C.vii.
- ii. = 1.0 less A.vi.
- iii. = 1.0 less B.iii.
- iv. = 1.0 less D.iv.
- v. = E.i. times E.ii. times E.iii. times E.iv.
- vi. Based on PCI member survey responses
- vii. Based on PCI member survey responses
- viii. = E.v. times [1.0 + E.vi.] times [1.0 - E.vii.]

D. + E. = D.v. + E.viii. = [D. + E.] / D.i.

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida**

Increase in BI Losses due to Non-Economic damages on Non-Tort Claims

i. BI Total losses	\$ 3,303,740,050
ii. Non Tort Portion	1.0%
iii. <u>Non-Economic damages</u>	<u>100.0%</u>
iv. <u>Increase in BI Losses = i. times ii. times iii.</u>	<u>31,724,514</u>

Decrease in UIM Losses Due to Increase of BI Limit

v. UM/UIM Losses	969,656,779
vi. UIM Portion	75.0%
vii. UIM Losses	727,242,584
viii. <u>Percentage decrease due to increasing BI Limit</u>	<u>10.9%</u>
ix. <u>Decrease in UIM Losses = vii. times viii.</u>	<u>79,219,646</u>

Note:

- i., v. Page 14 for 2016 P&C Industry for Florida distributed to each segment based on Florida 2015 ISS distribution.
- ii. Based on PCI member survey responses
- iii. Based on PCI member survey responses
- vi. Based on PCI member survey responses
- vii. = v. times vii.
- viii. = [1 - 1 / Exhibit 5, Item (6)] / Fixed expense adjustment in Exhibit 2

Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida
Impact on Average Rates of Increasing BI FR Limit to \$25/\$50

Policies without BI Coverage

(1) Overall Average ILF to 10/20	1.615
(2) BI Average Rate:	\$367.22
(3) 10/20 BI Rate:	\$227.34
(4) 25/50 Avg ILF	1.442
(5) 25/50 BI Rate	\$327.74

Policies with BI Coverage

(6) Overall Impact of Change to 25/50	1.103
(7) BI Average Rate:	\$367.22
(8) Revised BI Avg Rate:	\$404.92

(9)	(10)	(11)	(12)	Average BI Rate		(15)
% without BI Cov	BI Rate	% with BI Cov	BI Rate	Projected	Current	Change
7.0%	\$327.74	93.0%	\$404.92	\$399.52	\$367.22	1.088

Note:

- (1) Based on weighted average of survey responses
- (2), (7), (14) See Exhibit 1
- (3) = (2) / (1)
- (4) Based on weighted average of survey responses
- (5) = (3) x (4)
- (6) Based on weighted average of survey responses
- (8) = (6) x (7)
- (9) Based on Florida ISS 2015 data
- (10) = (5)
- (11) = 1.0 - (9)
- (12) = (8)
- (13) = (9) x (10) + (11) x (12)
- (15) = (13) / (14)

**Property Casualty Insurers Association of America
 Repeal of No-Fault Auto Insurance in Florida
 Med Pay Rates at Limits of \$1,000, \$5,000 and \$10,000**

A. PIP Loss Distribution

\$Cln Threshold	Wght Avg
\$0-\$1,000	9.7%
\$1,001-\$5,000	22.2%
\$5,001-\$7,500	13.4%
\$7,501-\$9,999	15.1%
\$10,000 (Full)	39.7%
Total	100.0%

Avg Med Pay Limit = **\$5,646**
 % of PIP Loss covered = **60.5%**

B. Determination of Med Pay Rates at Various Limits

Med Pay Limit	Claimant	(1) PIP Losses	(2) % Med	(3) % At Fault	(4) Uninsured	(5) % Without UM Coverage	(6) % Coinsurance	(7) % With Med Pay Coverage	(8) % Within Med Pay Limit	(9) PIP Losses Shifted to Med Pay	(10) Current Med Pay Losses	(11) % of Current Med Pay Losses	(12) Current Med Pay Rate	(13) Fixed Expense Adjustment	(14) Total
1,000	Not At Fault	\$2,507,864,182	95%	70%	20%	37%	99%	27%	15%	4,819,015	\$103,074,432	32%	40.74	0.855	52.00
	At Fault	2,507,864,182	95%	30%	100%	100%	99%	27%	15%	28,477,490					
										33,296,505					
5,000	Not At Fault	2,507,864,182	95%	70%	20%	37%	99%	27%	61%	20,096,167	103,074,432	135%	40.74	0.855	87.67
	At Fault	2,507,864,182	95%	30%	100%	100%	99%	27%	61%	118,756,302					
										138,852,469					
10,000	Not At Fault	2,507,864,182	95%	70%	20%	37%	99%	27%	100%	33,198,900	103,074,432	223%	40.74	0.855	118.26
	At Fault	2,507,864,182	95%	30%	100%	100%	99%	27%	100%	196,185,598					
										229,384,498					

Note:

- A. Based on PCI member survey responses
- B. (1) See Exhibit 2
- (2) Based on PCI member survey responses
- (3) Based on PCI member survey responses
- (4) Countrywide uninsured motorist based on IRC data.
- (5) Based on Florida ISS 2015 data
- (6) Assumes 95% of 20% coinsurance is covered by Med Pay
- (7) Based on ISS 2015 data
- (8) Based on A.
- (9) = (1) x (2) x (3) x (4) x (5) / (6) x (7) x (8)
- (10) See Exhibit 2
- (11) = (9) / (10)
- (12) See Exhibit 1
- (13) = 1.0 - Exhibit 2, Column (7)
- (14) = [1.0 + (11) x (12)] x (13)

**Property Casualty Insurers Association of America
Repeal of No-Fault Auto Insurance in Florida**

**Change from Sunset to 5 Years After No Fault Repeal in Colorado Compared to the Same Time Period for Countrywide
Time Period: 2003 vs 2008**

	<u>Colorado</u>			<u>Countrywide</u>		
	Frequency Change	Severity Change	Pure Premium Change	Frequency Change	Severity Change	Pure Premium Change
Bodily Injury	94.9%	-24.1%	47.9%	-21.5%	21.1%	-4.9%
Property Damage	-12.3%	6.0%	-7.1%	-12.6%	12.3%	-1.9%
Collision	-16.1%	7.9%	-9.5%	-10.8%	8.4%	-3.2%

Source:

Calculated based on Fast Track data

**Property Casualty Insurers Association of America
 Repeal of No-Fault Auto Insurance in Florida
 Impact on Minimum Limit Purchasers**

	(1)	(2)	(3)	(4)	(5) (4) - (3)	(6) (5) / (3)
Coverage	2017 Average Rate	Average ILF	2017 FR Pre HB19 Rate	2017 FR Post HB19 Rate	Estimated Change (\$)	Estimated Change (%)
BI	367.22	1.615	227.34	500.47		
PD	200.97	1.060	189.59	189.59		
PIP	270.21	1.000	270.21	0.00		
Total			687.14	690.06		
PIP + PD			459.80	189.59		
BI + PD			416.93	690.06		
FR Mandatory			459.80	690.06	230.26	50.1%

Note:

FR (Financial Responsibility)

- *Pre HB19* PIP & 10k PD- *Post HB19* 25/50k BI & 10k PD

(1) See Exhibit 1

(2) Based on weighted average of survey responses

(3) = (1) / (2)

(4) = (3) x change due to PIP repeal [Exhibit 2, column (8)] x change in mandatory BI limits [Exhibit 5, row (4)]

PCIAA

Milliman Analysis of Potential No Fault Repeal in Florida

Summary/Overview:

Milliman has been engaged by the Property Casualty Insurers Association of America (PCIAA) to provide a white paper analysis on the impact of Florida House Bill 19 which allows for the repeal of the Florida Motor Vehicle No-Fault Law and replacement with mandatory liability coverage including \$25,000/\$50,000 coverage for bodily injury (BI) and \$10,000 cover for property damage liability (PD).

We are seeking information from PCIAA member companies to support key assumptions used in our analysis. It is important that the information we are seeking be current and specific to the current Florida auto insurance market so as to help us to provide a reliable and accurate analysis. We have attempted to keep our questions to the minimum number necessary for a credible analysis. All individual member responses will be kept confidential and will be aggregated for use in our report. Responses may be based on calendar year 2016 or 2017 data, but the evaluation date of the data should be provided. *When the exact data to answer a question is not captured or readily available, we would appreciate best estimates based on your expert opinion.*

Survey Questions:

Personal Injury Protection (PIP) Losses

1. The following questions seek to distribute PIP losses relative to whether they are associated with claims that qualify for a Bodily Injury (BI) tort recovery. The values we seek are similar to those provided in response to question 49 of Appendix III of the Insurance Research Council's Survey of Closed Auto Injury Claims provided in 2014. If this information is not readily available, please skip to question 2.
 - a. What percentage of current PIP losses are (or could be) related to current BI claims (claims that reach the tort threshold)?
 - b. What percentage of current PIP losses are related to claims that do not currently meet the tort threshold but could become BI claims if no-fault were repealed? (This would include PIP losses related to claims with less than \$10,000 of economic loss where the claimant is not at-fault).
2. What is your estimated percentage of PIP losses are related to at-fault drivers?
3. What percentage of PIP losses are related to medical expenses vs. other such as income?
4. What is your average relative cost of allocated loss adjustment expenses to loss for PIP claims?

5. What percentage of PIP losses relate to claims with losses within each of the following thresholds:

\$Cln Threshold	% PIP Losses
\$0-\$1,000	
\$1,001-\$5,000	
\$5,001-\$7,500	
\$7,501-\$9,999	
\$10,000 (Full)	
Total	100%

BI Losses

6. For BI coverage, what is the distribution of losses related to the following categories: (1) economic losses related to claims that pass the verbal tort threshold, (2) non-economic losses related to claims that pass the verbal tort threshold, and (3) losses related to claims that do not currently pass the verbal tort threshold (excess PIP medical claims, etc.)?

Claim Type	%BI Loss
Tort - Economic	
Tort - Non Eco	
Non Tort	
Total	100%

7. What is your average relative cost of allocated loss adjustment expenses to loss for BI claims?
8. What is the estimated average reduction in claims for comparative negligence of claimants?

Uninsured Motorist (UM) Losses

9. What percentage of current Underinsured/Uninsured Motorist (UIM/UM) coverage losses relate to UM only?

Exposures/Policies

10. What percentage of your policyholders purchase BI coverage?
11. What percentage of your policyholders purchase UM coverage?

12. Please provide a distribution of your BI premium for the following policy limits along with your current increased limits factors (allocate any premium for any additional limits to the closest limit listed):

BI Limits	BI ILFs	%Premium
10/20		
15/30		
25/50		
50/100		
100/300		
250/500		
300/300		
300/500		
500/500		
500/1M		
1M/1M		

13. What percentage of your policyholders purchase optional Medical Payments (MP) coverage?

14. What is the distribution of your current MP premium by limit?

Other Proposed Reforms

15. A proposal to reform “Time Limit Demands” by increasing the time period within which an offer shall remain open for acceptance by the tort-feasor’s insurer to at least 45 days from the date of written demand is expected to decrease loss and loss adjustment expense amounts previously paid on claims to avoid potential future bad faith claims. Please provide an estimate of the reduction in current loss and LAE amounts paid if this proposal were to be enacted.
16. HB 119 was intended to eliminate the calculation of attorney fees with a contingency fee multiplier. However, it appears there are still courts awarding multipliers, in particular related to glass claims. What percentage of your current costs are estimated to be related to multiplied fees?