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Testimony from:

R.J. Lehmann, Director of Finance, Insurance and Trade Policy, R Street Institute

In SUPPORT of SB 1, A bill to amend the insurance code of 1956

May 7, 2019

Michigan Senate Committee on Insurance and Banking

Members of the committee,

My name is R.J. Lehmann and I direct insurance policy for the R Street Institute, a nonprofit, nonpartisan public policy research organization. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government in many areas, including property and casualty insurance markets.

Our interest in Michigan's challenging market conditions for automobile insurance date to our prior incarnation as the Heartland Institute's Center on Finance, Insurance and Real Estate. In 2011, current R Street President Eli Lehrer published a Heartland study proposing that Michigan follow the lead of Pennsylvania in creating a public-private auto insurance fraud task force.¹ In January 2013, in what was at the time just the seventh policy study ever published by R Street,² I examined dislocations in the Michigan auto insurance market, issuing a set of recommendations that included:

1. Encouraging the use of health insurance as a primary payor for medical benefits;
2. Instituting a medical fee schedule based on the state's workers' compensation fee schedule; and
3. Permitting consumers more choice in auto insurance plans, including the option to choose the level of medical benefits they wish to obtain through their auto insurance carrier.

Though much has changed in the intervening years, Michigan continues to struggle with many of the same problems that it always had in its auto insurance market, namely unaffordable premiums, lack of consumer choice, cost shifting and overutilization, high levels of auto insurance fraud, and an epidemic of uninsured drivers. Many of the recommendations we first proposed years ago not only remain

¹ Eli Lehrer, "The Case for Creating a Michigan Auto Insurance Fraud Prevention Agency," The Heartland Institute, November 2011. <https://2o9ub0417chl2lg6m43em6psi2i-wpengine.netdna-ssl.com/wp-content/uploads/2012/06/Case-for-Creating-a-Michigan-Auto-Insurance-Fraud-Prevention-Agency.pdf>.

² R.J. Lehmann, "Reforming Michigan's Auto Insurance Market," R Street Institute, January 2013. <http://2o9ub0417chl2lg6m43em6psi2i-wpengine.netdna-ssl.com/wp-content/uploads/2013/01/RSTREET7.pdf>.

relevant, but we are pleased to see some of their broad outlines incorporated into SB 1. While SB 1 currently lacks many of the details necessary to fix what ails Michigan's auto insurance market, as a statement of legislative intent, it is a crucial step in the right direction.

As any observer can tell immediately, the central cause of the problem is Michigan's *sui generis* rule requiring all auto insurance policies to provide unlimited lifetime personal injury protection (PIP) benefits. This compares with the \$50,000 annual limit in New York, the next highest in the country. As a result of Michigan's unique PIP rules, its claims costs run far ahead of any other state in the nation. As we documented in our most recent Insurance Regulation Report Card, the average loss ratio of Michigan auto insurers over the past five years was 91.3 percent, four and a half standard deviations greater than the national mean of 66.6 percent.³

SB 1 would seek to address these trends by ensuring that: consumers have the right to purchase PIP coverage in amounts that suit their personal needs; the state's seniors with lifetime medical benefits may forego PIP entirely; hospitals and other providers should provide transparent and equitable pricing of medical services; both attorneys and insurers who negotiate in bad faith should be held accountable; and statewide utilization reviews should be conducted to track potential cost-shifting.

The bottom line is that Michiganders should be afforded the same level of choice in auto insurance products as those in every other state, and special interests can no longer be allowed to pad their bottom line at the expense of the state's drivers and consumers. Therefore, it is critical that the committee pass SB 1.

Thank you for your time,

A handwritten signature in black ink, appearing to read 'R.J. Lehmann', with a long horizontal line extending to the right.

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³ R.J. Lehmann, "2018 Insurance Regulation Report Card," R Street Institute, December 2018, p. 12.
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