



MICHIGAN ASSIGNED CLAIMS PLAN

Report to the Director
of the Department of Insurance and Financial Services

January 24, 2014

MICHIGAN ASSIGNED CLAIMS PLAN REPORT– 2013 CALENDAR YEAR

In June, 2012, Governor Snyder signed HB 4455 into law, which transferred the operation of the Michigan Assigned Claims Facility from the Department of State (SOS) to the Michigan Automobile Insurance Placement Facility (MAIPF). The MAIPF, which also acts as the auto insurer of last resort in Michigan, works with and assesses the same auto insurance companies and has employees with specialized claims expertise who work with applicants to determine eligibility for benefits.

In order to reduce confusion regarding the transition, the name of the operation was changed to the Michigan Assigned Claims Plan (MACP). Potentially eligible claims are assigned to one of seven Servicing Insurers for handling. All Servicing Insurers serve the MACP on a voluntary basis.

We commend the legislature, as well as Secretary of State Johnson and her colleagues, for recognizing that the Assigned Claims Facility could gain efficiencies with such a move. Following are the areas where we have identified process improvements and organizational and financial efficiencies.

WEBSITE

The MACP has developed a robust website that allows claimants, providers and attorneys the opportunity to obtain information about MACP and how to complete and submit an application for benefits. There is a comprehensive FAQ document, and an Assessment tab that provides updates on dates and trend information to allow insurers to plan for assessments. There is also an option to allow contact via email for questions. In 2014 we will roll out additional functionality.

ELIGIBILITY INVESTIGATIONS

Initial Eligibility Investigation –The MACP has reduced Servicing Insurer handling costs by using our team of experienced Michigan Personal Injury Protection claims handlers to conduct more in-depth initial eligibility investigations. A new application for benefits has been created that requests all necessary documentation to assist in the completion of the investigation. Applicants must first establish that there was injury sustained as a result of an auto accident, and claims are reviewed to ensure that the injured party is not only entitled to benefits but also that the Michigan Assigned Claims Plan is the proper place for coverage. All other avenues of possible coverage are analyzed, including the potential of the person's own auto insurance, their resident relative coverage and/or the involved vehicle's coverage. Once it is verified that the Assigned Claims Plan is the only avenue for coverage, claims are then assigned to the Servicing Insurers. This reduces administrative fees for investigations that can be conducted by MACP internal staff.

Burden of Proof – As stated above, applicants must first establish that there was injury sustained as a result of an auto accident. The MACP has transitioned the burden of proof to the injured party or their representative, as the Michigan No Fault Statute intended. Many attorneys and health care providers were routinely relying on the Assigned Claims Facility to do their coverage investigations for them. Rather than paying the Servicing Insurer to confirm that there was an auto accident and that the MACP is the proper source of benefits, the MACP team requests the necessary information from the injured party or their representative to assist in the verification that they are eligible for benefits via the Assigned Claims. This now includes actions like requesting that the injured parties contact their resident relatives to file claims with their auto insurance companies, requiring the injured parties to contact the involved vehicle's owner for insurance information and insisting that the injured parties provide the necessary documentation to support that there was in fact a motor vehicle incident. These tasks previously fell to Servicing Insurers, which led to higher administrative costs and, in some cases, unnecessary litigation.

SERVICING INSURER AUDITS

Holistic Approach- Servicing Insurers handle claims on behalf of the MACP and then apply for reimbursement for any benefit payments and administrative expenses. The MACP has initiated monitoring of Servicing Insurer performance by taking a holistic audit review approach; claims are reviewed not only for accurate and appropriate payments, but also for efficient claims handling procedures. MACP is driving medical management of its claims, such as verification that the treatment is related to the auto accident, that the treatment was necessary for the patient's recovery, that the appropriate billing codes are being utilized by the medical providers and that an action plan is being put into place when the injured party is not successful in recovery. Servicing Insurers are strongly encouraged to embrace best practices and will not be reimbursed if they do not meet the expectations of the MACP for accurate and efficient claims handling.

Audit Preparation Process- Servicing Insurers are no longer required to print their files, box them and ship 20-25 boxes (each) twice per year. This was costly from an administrative expense standpoint as well as taking valuable time away from claim processing. The MACP uses specific criteria to determine which files will be audited, and Servicing insurers only need to provide the actual supporting documents (Explanation of Benefits documents, medical records, etc.) for the claims selected for audit. This is also a cost savings for the MACP since we are not paying labor costs for carriers to print and ship every file.

Claims Selected for Audit-The MACP is reviewing a variety of claims, not just catastrophic claims, since smaller claims often show evidence of inappropriate treatments and abuse of the system for items such as transportation costs.

Audit Result Tracking-The MACP will now maintain audit results from year to year for monitoring Servicing Insurer performance. In order to provide better documentation and feedback to Servicing Insurers, we have developed a detailed audit tracking reporting method. All results are compiled per billing period and results are maintained for accountability when areas of opportunity are identified and reported to the Servicing Insurer. The data is also retained for efficient identification of historical payment information.

PLAN STRUCTURE

Servicing Insurer Agreement-The MACP has developed an agreement that outlines procedures and expectations regarding the relationship between the MACP and its Servicing Insurers. Important aspects of the agreement include procedures, expectations and policies that apply to both the Servicing Insurer and the MACP. Servicing Insurers are now reimbursed for claim handling with a single hourly rate for all carriers, rather than by rates negotiated individually, bringing fairness to the reimbursement process and encouraging efficiency.

Billing Time Guidelines for Claim Administration-The MACP has gained consistency and efficiency by establishing billing time guidelines for common claims handling procedures. Each common claims handling process has a guideline for the amount of time that an insurer may bill for the claims activity. This allows for consistent compensation for the same types of activities. It also provides an efficient method for easy calculation of payments owed to the insurers by the MACP.

Best Practices-The MACP has set expectations with the Servicing Insurers by establishing best practices for claims handling. MACP provides recommendations for claims handling procedures that provide the Servicing Insurers with guidance that can help ensure that they will be reimbursed for their claims payments.

Litigation Roundtables-The MACP has developed a litigation review process that has helped to deter the settlement of fraudulent cases or, in some instances, avoid cases being filed in the first place. While MACP does not direct carriers in the handling of individual claims, this review ensures trial expense reimbursement for the Servicing Insurers and gives MACP a seat at the table when there is a potential for case law to be established. This process outlines how cases should be examined between the MACP and the Servicing Insurers to ensure the appropriate cases are being tried. The process allows the Servicing Insurer to take a more proactive approach, so that they may confidently proceed to file litigation against any wrongdoing that they have been able to establish. Settling claims in place of trying the right cases leads to more of the same type of cases being filed repeatedly. This new process has been held in high regard by the Servicing Insurers.

Servicing Insurer Meetings-The MACP has achieved a high level of communication and more consistent claim handling methods by establishing quarterly Servicing Insurer Meetings that are held at the MACP office. Each insurer is encouraged to have at least one representative attend the meetings. The meetings allow for discussion of common MACP issues and provide opportunities for each insurer to discuss and understand MACP policies and procedures. The meetings also provide an opportunity for the insurers to offer feedback regarding MACP processes.

SUBROGATION

2013 Collection Results-The MACP collected a total of \$3,432,774.22 for the year 2013. All funds received from the responsible parties are now sent directly to the MACP, rather than having the Serving Insurer retain the payments and reimbursing the MACP during their next billing cycle. This allows for the MACP to accrue interest and more accurately track collections.

Minimum Monthly Payment-The MACP has discontinued the former requirement of a minimum monthly payment of \$60 in restitution from a responsible uninsured owner. MACP is instead accepting an agreed payment based on the income of the owner and what can realistically be expected as reimbursement to the MACP. In many cases, because the uninsured owner could not afford to pay the required minimum monthly payment, their license would be suspended and they would no longer be able to drive to a job or otherwise be a productive member of society. Suspending a license was an additional expense to the Assigned Claims Facility and there would be no reimbursement whatsoever from the uninsured owner. By doing away with a minimum monthly payment requirement, we have collected a total of \$3,586.12 in 2013. These payments will continue until the debt is paid in full. We have also saved a total of \$1,150.00 in license suspension fees.

Uninsured Owner Judgments-The MACP has retained the services of an experienced collections company that is consistently renewing expiring judgments on our behalf. This process ensures that those responsible parties that are currently paying cannot later challenge the legitimacy of an expired judgment and assures there will be no legal issues with the current responsible parties continuing to pay. Additionally, it allows for garnishment filings on wages, tax refunds, lottery winnings and any other appropriate sources of income. The collections company allows payment via credit card and will work with the responsible party one-on-one until an agreement on some manner of payment can be reached. They understand that it is our goal to establish terms for repayment versus just suspending a license. To date, we have renewed over \$15,000,000.00 in outstanding judgments that will now have the potential for collection.

Financial Garnishments- MACP has instituted garnishments on all outstanding judgments. As previously indicated, our experienced collections company files garnishments any time there is an opportunity to

recover payments from the uninsured vehicle owner. This may include lottery winnings over \$500, wages, bank accounts and state tax refunds.

EXPENSE SAVINGS

Litigation Expenses-The MACP has controlled costs by retaining counsel that is highly experienced with not only Michigan Personal Injury Protection benefits, but specifically, Assigned Claims litigation. This reduces or eliminates the need for lawsuits to be handled by Servicing Insurer's counsel, which would result in administrative fees in addition to the litigation costs. Those administrative fees are eliminated when the appropriate cases are handled by the MACP counsel.

MAIPF Savings-By combining the operations of the MAIPF and the MACP, we have realized total savings in 2013 of \$242,314.00. These savings result from sharing costs for building expenses, equipment, technology and all other duplicate administrative functions and are passed along to automobile insurance purchasers through lower assessments for the MAIPF and the MACP.

File Retention-The MACP now requires that closed files be stored by the Servicing Insurer, rather than returning them to a central storage location and increasing the risk that files are misplaced or lost due to errors in the storage process. This decreases storage costs and allows carriers immediate access to their closed files instead of delayed access from central storage.

When a new claim is received, the MACP stores all documentation electronically. There is a comprehensive database for claims data and all actions taken on a claim, which provides additional efficiency when inquiries are received regarding claim status. All data is backed up nightly to a secure server.

DATA SECURITY

The MACP has dramatically increased data security by transmitting applications and medical records via a secure, HIPAA compliant cloud-based file sharing portal to Servicing Insurers and attorneys. MACP has also converted paper documents to secure electronic storage and has eliminated the transfer of paper claims records from the Servicing Insurers.

FINANCIAL RECORDKEEPING

The MACP was provided with limited information by the SOS regarding administrative expenses being charged back to the Assigned Claims Facility. Much of the administrative expense was based upon an allocation factor that may or may not have covered all of the expenses of the State of Michigan to manage the Assigned Claims Facility. For example, there were no details regarding the annual cost to house 4,882 boxes of paper records or for the internal SOS expenses related to pulling motor vehicle records and license suspension and reinstatement.

The MACP now maintains very detailed expense documentation for all activities.

ASSESSMENT CALCULATION

The MACP has amended the assessment calculation formula to provide a more equitable outcome. Previously, self-insurers were assessed based on a comparison to the total number of vehicles registered in the state. At the time this method was created, it probably made sense because most registered vehicles were also insured. However, since approximately 20% of vehicles are now uninsured, the previous formula resulted in an artificially lower assessment for self-insurers. The assessment to self-insurers is now based on a comparison to the number of insured vehicles, not registered vehicles.

BENEFIT PAYMENT AND EXPENSE TRENDS

Despite the fact that the MACP was not able to immediately implement all of the process improvements identified during the transition, it is encouraging that the Servicing Insurer payments for benefits for the first half of 2013 is growing at a smaller rate than in previous years. While year over year paid benefits increased by 16.74% from 2010 to 2011 and by 9.44% from 2011 to 2012, the rate of increase from 2012 compared to the first half of 2013 was 6.54%.

Administrative expense for 2013 will be higher than in past years, mainly due to one-time transition expenses. We expect to see administrative fees from Servicing Insurers trending downward as the MACP staff performs more of the up-front work on eligibility investigations. Costs will also be lower as MACP moves to a more automated environment and takes advantage of savings related to the electronic storage and retrieval of records.

The consequence when a responsible party fails to pay a judgment is the revocation of driving privileges. Charges to the MACP from the SOS for the suspension and reinstatement of driver's licenses are quite high (\$50 per action) due to the highly manual nature of those activities at the SOS. We encourage the SOS to explore additional automation which would allow the MACP to bring those costs down for Michigan insurance buyers.

SUMMARY

This has been a year of great transitions for all parties. Applicants for benefits must now complete a more detailed application, which helps MACP and Servicing Insurers determine eligibility for benefits and streamlines the claims process. Servicing Insurers have been charged with strengthening procedures related to medical management of the MACP claims that they service and with implementing more efficient claims processes. The MACP project to build an automated system for claims submission and management is nearly complete. Regular communication meetings are held with Servicing Insurers to discuss claim issues and trends as well as process improvements. Collections from responsible parties are a priority and applicants for benefits are informed up front that the MACP will make every attempt to collect judgments from the person(s) who failed to maintain insurance coverage for their accident.

The MACP will continue to move forward with efforts to implement process improvements and will work with Servicing Insurers to more closely monitor benefit payments and expenses.

DEMOGRAPHIC INFORMATION (2013 Calendar Year)

Applicant Age	Count	% of Total
30 and under	1643	49%
31-59	1505	45%
60 and over	210	6%
Unknown	41	1%
<i>Total</i>	3399	100%

Applicant Position in Vehicle	Count	% of Total
Passenger	1467	43%
Pedestrian	857	25%
Driver	840	25%
Motorcycle	70	2%
Unknown	165	5%
<i>Total</i>	3399	100%

Attorney Representation	Count	% of Total
Yes	1236	36%
No	2163	64%
<i>Total</i>	3399	100%

Vehicle Type	Count	% of Total
Private Passenger	2950	87%
Commercial Auto	213	6%
Other	15	1%
Unknown	131	7%
<i>Total</i>	3399	100%

Applicant City	Count	% of Total
Detroit	1587	47%
Flint	147	4%
Saginaw	80	2%
Grand Rapids	76	2%
Warren	58	2%
Kalamazoo	57	2%
Pontiac	53	2%
Highland Park	49	1%
Battle Creek	44	1%
Dearborn	42	1%
Southfield	35	1%
Taylor	33	1%
Sterling Heights	31	1%
Inkster	29	1%
Lansing	26	1%
Muskegon	26	1%
Redford	25	1%
Hamtramck	22	1%
Ypsilanti	21	1%
Oak Park	20	1%
Monroe	20	1%
Other*	918	27%
<i>Total</i>	3399	100%

*Combined total for cities with less than 20 claims received in 2013