

Causes of the Invisible Red Line

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An applied research project submitted to the department of Interdisciplinary Technology as part
of the School of Police Staff and Command Program
Class #13, 2002

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ABSTRACT

This paper discusses the Michigan's no-fault automobile insurance system and the influence of territory rating factors on insurance premiums. The lost cost factor is examined and the underlying economic cause of lost cost is compared in an analytical model. The models used are the 16 territory boundaries for rate classification; a model average household; and nine (9) major insurance companies reasonable for insure 100,000 vehicles or more within the 16 territories. Each of the nine major insurers has provided the average premium estimates with the average competitive marketing discount strategies. The results clearly illustrate the large disparity of insurance premiums influenced by the lost cost factor. The results demonstrated are projected with the law enforcement impact on the lost cost factors. The primary economic impact on insurance premiums is the increased cost for replacing lost and medical expenses. The average auto theft rate, suburban, rural vs. urban areas, reduction and increases in insurance premiums, average cost for lost replacement, and medical expenses will also be discussed.

INTRODUCTION

Unlike the 1940's and earlier, the automobile manufacturing industry was able to build cars that cost less to manufacture at greater speeds, a savings that was passed on to the consumer. Along with a healthier economy the consumer was able to take advantage of the affordability of new cars. During the 1950's, 1960's, and 1970's the number of vehicles on the road increased as did auto accidents and lawsuits. In 1973, Michigan enacted a mandated no-fault auto insurance system that would provide reparations to persons involved in injury auto accidents, and reduce the horrific number of lawsuits that were filed annually. Twelve other states and Puerto Rico also have enacted similar no-fault auto insurance systems (Michigan in Brief, 1998). Mandates requiring auto insurance for vehicles caused the insurance industry to grow, along with the insurance premiums.

Vehicle theft accelerated during the late 1970's to the early 1990's, where the number of vehicle thefts began to taper off. As the auto theft and vehicle accident numbers grew, the insurance industry implemented methods that were used to measure projected loss cost to compensate or justify automobile insurance rate increases across the table (Michigan in Brief). Over the past twenty years civic groups and community organizations have criticized the variation in insurance premiums offered from city to city. There has been considerable discussion pertaining to the affordability of auto insurance and the unfair premiums for inhabitants in specific areas-territorial rating, also known as "redlining." This concern has been shared by civic and community groups in various states nationally, and some civic groups have taken their plea to state courts. In the State of New York, there are several discrimination cases pending in the state

supreme court against the insurance industry regarding territorial ratings. And in California, proposition 103 has evolved because of unfair territorial ratings by the insurance industry (Journal of Insurance Regulation, 1995, pp. 159-187). There are similar court cases against the insurance industry for unfair territorial rating in other states throughout the country.

In the State of Michigan, like many other states, there is a regulatory commission that monitors the activities of the insurance industry, Insurance Committee, Michigan House of Representatives along with the Financial Services Committee Michigan Senate. Michigan also has several consumer groups that assist with monitoring the insurance industry.

This research will examine territorial boundaries, “the invisible redline,” as an existing variable used as a significant component in the process of calculating auto insurance premiums. Secondly, the insurance companies’ methodology of measuring territorial rates will be examined. Thirdly, the causes of territorial classification and discovery of the motivating factors behind redlining will be examined. Finally, the research will identify the impact that law enforcement has on territorial phenomena.

BACKGROUND AND SIGNIFICANCE

Territorial Boundaries

When a driver is rated, they are put into a group with other drivers who have similar driving risk and hazards. For example, if a driver has one accident and three speeding tickets, statistically, they run a higher risk of being in another accident than a

driver who has not been in an accident or have tickets. If the car is garaged in an area that poses a statistical risk, or results in the lost cost factor, they are grouped by territory (Reflect: Module IV- Risk Management).

Also, according to the Reflect: Module IV – Risk Management, an insurer's territorial rating is based on the fact that both the risk and the cost of being involved in an accident are affected by the environment in which the motorist drives. Traffic congestion, road conditions, climate, terrain, and traffic law enforcement all have a direct influence on accident rates. The size of the city in which a motorist drives is also an important factor. For example, once an accident occurs, residents of larger cities are increasingly prone to file a lawsuit than people in smaller towns. Auto theft and vandalism are more common in larger cities. The dollar cost of the average claim varies from one community to another. Court awards, auto repair costs, and hospital rates are often greater in larger cities than smaller. There are more accidents in densely populated areas. However, average claims are usually higher in rural, less-populated areas, where accidents occur at a higher speed. Insurers use rating territories as a method of adjusting premiums to reflect these differences in accident environments. The base rates of each territory are determined by its loss experience relative to the state as a whole (Michigan in Brief).

According to *MetLife* (2002), rates are regulated on a state-by-state basis. Therefore rates in California and Rhode Island will differ. Rates also vary between locations within a state. This is because the risk of accidents, theft, and vandalism vary significantly from one community to another. For example, people in smaller towns generally have been found to have fewer auto accidents than people living in larger cities,

so they may pay less for insurance. Other variables include typical regional weather conditions and local auto repair.

A report by the National Association of Insurance Commissioners (Michigan in Brief), identifies several criteria used by association members factoring automobile insurance premiums. Take notice of the (factoring) language used to identify a specific area:

-Average coverage purchased	-Medical cost
-Average deductible	-Law enforcement and tort liability laws
-Average value of vehicle insured	-Average accident rates and vehicle repair cost
-Average driver characteristics	-Motor vehicle theft rate
-Traffic conditions and road maintenance	-Rate regulatory approaches
-Proportion of drivers in urban area	-Financial responsibility requirements
-Cost of living and wages levels	

The NAIC further reports, “the auto insurance product is not homogenous across states. Therefore, caution should be exercised when making direct comparisons between states. Because of the many different factors that affect average premiums, the measures do not indicate the relative efficiency of the auto insurance markets in various states.”

Prior to 1996, Michigan’s Essential Insurance Act restricted the methods insurers could use to set rates. For example, an insurer could not divide the state into more than 20 territories, and the rate in the least expensive territory could be no less than 45 percent of the rate in the most expensive. These restrictions were designed to make insurance more available and affordable for urban residents. The Public Act 98 of 1996 repealed these constraints; thereby allowing insurers greater flexibility to develop rates based simply on cost and not just territory. The repeal caused territory constraints to decrease

and stabilize at 16 major territorial areas. Territories used for calculating auto insurance premium range from the area of highest risk to the lowest risk withstanding the approval of Michigan legislation. (See Appendix 1, p. 24.)

In an effort to substantiate variation or the practice of the territory rates, an analyses survey of premiums charged by nine major Michigan automobile insurance companies, that insures 100,000 vehicles or more, were compared among the 16 territorial boundaries used in Appendix 1. The premiums were charged using six basic factors as a formula of rate calculations (age, marital status, miles driven daily/year, driving records, type of vehicle and place of residence). The six factors selected were favored by the insurance industry. The Michigan Insurance Division (telephone communication, May 6, 2002) provided a sample of an average household in the State of Michigan as an analytical tool for an average insurance premium in the 16-territory survey. There are six supplied calculating factors favored and used by the insurance industry. Also included in the premium survey is the total comprehensive insurance coverage as percentage of total premiums. Comprehensive coverage is for replacement cost due to theft, arson, vandalism, and damage caused by natural (weather) disasters. The results were shocking; premium variations were double the amount in Southwest Detroit than compared to what premiums were in Grand Rapids. (See Appendix 2A, page 25 and see Appendix 2B, pp. 26-27).

The research clearly demonstrates and validates that territorial rating is an essential factor used in calculating insurance premiums. It is also clearly evident that all state governments accept territorial ratings. Critics of rating territories do not dispute the fact that rates vary from one area to another. Some of them maintain that basing

premiums on geography is unfair and socially undesirable, even though they can justify by vehicle theft and accident statistics. Those who live in larger cities are not individually responsible for high vehicle theft and/or high accident rates, and they should not be penalized for something they cannot control. This populace would like to see the same base premiums charged throughout each state, so that the cost of high vehicle theft and high accident rates in cities would be distributed among motorists everywhere. This research revealed that drivers in smaller towns and rural areas do not view this approach with enthusiasm—or by the legislators who represent them. Any attempt to end rating on the basis of geographical territory leads to a political struggle between residents of larger cities and other residents in the state (Reflect: Module IV- Risk Management). The arguments for or against geographical territory rating can be heard in courtrooms across the nation. Yet, very little effort is focused on identifying the problems that precipitate territorial classifications.

CAUSES OF REDLINING

On February 18, 2002 a personal interview was done with a State Farm Insurance manager, from within the metropolitan Detroit area. The manager was quite hesitant concerning the interview for fear of work related repercussion. The manager requested to be anonymous for confidential reasons in this report. The interview is recorded below:

Question: How long have you been employed with State Farm Insurance?

Answer: “ I have been employed for 17 years in, and around, the Detroit metropolitan area. I worked ten years as a claims adjuster, and seven years as a manager. This experience qualifies me as a consultant for causes of territory classification.

Question: What have you experienced in causes of redlining?

Answer: “Territorial issues have been controversial regardless of whom is at risk. When territorial factors are projected in automobile premiums, the lost cost risk of auto theft, auto accidents and repairs, along with medical cost are the general elements measured in an area. For example, Detroit has lead the state in auto theft claims filed within the last decade, while the city of Warren has been the leading city for alcohol related accident claims. The score is calculated in three methods for auto theft: 1) the number of auto theft claims filed the year before (2001) compared to the statistics of the actual number of cars reported stolen to the police in the same year; 2) the type of cars reported stolen compared to the total lost cost, (i.e., damaged recovery, or stripped recovery, etc); and, 3) auto theft fraud. These scores are general factors that contain many more characterizing factors in the scoring process. In the Detroit metropolitan area, there are many shopping malls that stock a variety of vehicles for car theft. Most of the time the car thief has a particular model of car in mind. Because most shopping malls are open for business seven days a week, a shopping mall has an available variety of vehicles. When the scores are factored the area environment is taken in to consideration.” The manager stressed sarcastically, “ Never move into an area with three or more shopping areas.”

According to the State Farm manager, auto theft has been on a decline for the past five years. He attributes the decline to the Auto Theft Prevention Authority (A.T.P.A.). The ATPA is a consorted effort of participating insurance companies, the law enforcement community, private industries, and the State of Michigan. This organization is completely dedicated to the

reduction of auto theft and similarly related crimes involving auto theft and its attempt. The manager indicated that auto theft is down 23% to 25% from record number stolen vehicles in the late 1980's.

The manager indicated "although auto theft is down" medical cost and vehicle repairs are up. Normally consumers would experience about a 4% decrease in premiums due to the decline of auto theft; a contrary 6% increase for medical and collision cost will cause an increase in premiums by 2%. The manager indicated that the rise in medical cost and vehicle repair would be affected nationally. "The average medical claim for a hospital visit is about \$600, and that does not include overnight treatment. Depending on the injury, medical fees can be very expensive. The average emergency room physician fee is \$300. The manager states that medical cost has increased 35% over the last eight years. As a matter of streamlining cost for State Farm, the customer is generally provided with medical alternatives by participating in an insurance network program that offers discounts on the insurance premiums.

According to the State Farm manager, the rising vehicle repair cost has enlisted a new type of car theft that does not involve stealing a car for the parts. For example, a person with an insured vehicle becomes involved in a minor fender-bender. For fear of increased insurance premiums, the person chooses not to make an insurance claim, but prefers to pay for the repairs out of pocket. The vehicle is taken to a collision shop where a written estimate is provided, and the cost is a little more than what the owner can afford. The collision personnel then advises the owner that by reporting the vehicle stolen and allowing the collision shop to remove the damaged parts, the insurance company will cover the lost cost. The parts are removed from the vehicle and the vehicle is taken to a desolate area, and an anonymous phone call is made alerting police of the vehicle's location. The vehicle is recovered; the owner has the vehicle taken back

to the collision shop, and the original parts, in addition to new parts are replaced. The insurance company pays the owner, and the money is shared between the collision shop and the vehicle's owner. The owner drives away with the vehicle being repaired and fraud money is pocketed. In the meantime, the insurance company has become a victim of insurance fraud.

The interview with the State Farm Insurance manager concluded with this final perspective, "Territorial classification is essential to the insurance process of premium selections, and it is 'redlining' when an individual with an excellent driving record is charged a lost cost risk. Cars are stolen daily, but in my 17 years of reviewing the data, I consider the type of vehicle a person owns before considering where a person lives. Let's face it, Detroit doesn't have the convenience of shopping malls."

Considering the information received in the interview with the State Farm Insurance manager, data was obtained and placed in chronological order for the purpose of analyzing the forecasts of stolen vehicles reported for 1986 through 2000. Detroit's percentage changed -19% from 1986, which contributed to an overall 25 % in the State of Michigan. The national auto theft percentage, 1986 through 2000, also shared a decline percentage of 5%. (See Appendix 3, p. 28.)

An analyses of an average (single coverage) total insurance premium, and average annual comprehensive premium compared in a recent two year variation of auto theft averages, illustrates the total percentage of comprehensive change in comprehensive coverage in various state locations. Taken into account, the nine insurers listed in the analyses first utilized a variety of marketing strategies required by state law prior to lost cost rating in territory classification. The results yielded minor savings for inhabitants in low risk areas, as high as 1% and, as low as 0.7 %, while inhabitants of higher risk areas shared an average increase in premiums of .2%

(See Appendix 4, p. 29). Further, insurer visibility, or lack of visibility, in urban areas affects their loss experience and consequently, their rates. Still, it is interesting to note that the average comprehensive premium in Southwest Detroit is 74% higher than the statewide average comprehensive premium for all insurers, and 324% greater than the average comprehensive premium for Grand Rapids. Clearly, high vehicle theft rates in Detroit have significantly impacted the cost of comprehensive insurance coverage (A.T.P.A., 2001). An average percentage change illustrates inconsistencies in correlation to the change in the State of Michigan's overall decline in auto theft of 0.2%. (See and compare Appendix 3 and 4, pp. 28 and 29).

The premium increases and/or decreases are supportive of the information provided by the State Farm Manager indicates that comprehensive premium increases are impacted by the increased cost for recovery damage or replacement of stolen vehicles. According to Ed Sparkman, senior manager, of vehicle support at the National Insurance Crime Bureau in Palos Hills, Ill., although vehicle theft has decreased, theft still costs consumers approximately \$7 billion each year. In addition, 32 percent of all stolen vehicles are never recovered”.

Obviously, vehicle theft insurance fraud has an impact on vehicle theft totals. Researchers have shown that more Americans are leasing to save cost on the monthly payment while taking advantage of the opportunity of driving a new vehicle. As a measure of maintaining cost, consumers are limiting the number of miles driven, which offers a premium discount depending on the state where the consumers lives. Michigan insurers offer automobile insurance discounts for the least miles driven in a year (Michigan Insurance Bureau, telephone communication). Most lease programs offer an annual mileage contract of either 12 thousand or 15 thousand miles a year. However, many new car lease mileage contracts are broken due to

excessive miles. The average cost per mile in excess is fifteen cent a mile. Excessive mileage can be quite expensive. According to Sergeant Ronald Powell of the Detroit Police Department's Commercial Auto Theft Section, 50 % of insurance frauds investigated in his department are leased vehicles that are reported stolen, because of excessive miles.

Insurance fraud is common in urban, suburban, and rural America. Under a principal garage rule, paid fraudulent claims are treated like any other loss and assessed against the territory where the vehicle is garaged. Fraudulent claims are but one element of a territory's projected lost cost, which is the cost of claims an insurer must pay. The risk of fraud attributable to territory is assessed by the amount paid out in suspected fraudulent claims. Fraud prevention and detection expenses are eased against all policyholders, irrespective of where vehicles are garaged (Harleston esq, 2001)

According to Harleston, the common types of automobile insurance fraud are:

1. Padding Claims - overstating a claim to make up for the deductible or exaggerating injuries based on actual accidents by doctors, lawyers, and claimant themselves.
2. Falsifying Reports - falsely reporting a vehicle stolen or exaggerating the value of the vehicle or its contents in order to collect more money.
3. Inflated Auto Repairs - an auto body shop owner offers to hide the deductible or inflate the extent of damage for the benefit of the car owner.
4. Misrepresentation - a vehicle owner uses friend's or relative's address or misrepresents how far he drives to work to obtain a lower premium or otherwise deliberately provides inaccurate information to obtain a lower rate.

5. Staging Accident - deliberate collision of two or more vehicles in order to file fraudulent bodily injury or, in some cases, physical damage claim.

According to a Conning and Company Study (Harleston, 2000) conducted, the cost of fraud is difficult to quantify because:

1. not all fraud is known,
2. not all fraud that is uncovered is reported,
3. not all fraud that is reported is quantified, and
4. not all fraud is pursued in civil or criminal actions

The final general factor used to measure automobile insurance in territory classification is the lost cost of motor vehicle accidents. There were 217,293,000 registered vehicles in United States for 2000, and 2,693,064M vehicle miles traveled (Car-Accidents.com, 2002).

According to Motor Vehicle Accident Statistics (2002), there are more than 12 million motor vehicle accidents annually, including more than 20 million vehicles. This results in over 5 million nonfatal accidents annually, of which approximately 2 million are disabling injuries, including approximately 1 million work related auto-disabling injuries. The U.S. Department of Transportation (Central Insurance Co., 2002) estimates that the typical driver will have a near automobile accident one to two times per month, and all will be in a collision of some type on average of every 6 years.

According to the National Highway Traffic Safety Administration, (Auto Accidents, 2002) rural areas contribute to the highest death rate of 58.4 percent, as compared to urban areas. The likely explanation for this would include the greater road mileage and higher speed of rural drivers with longer amounts of time elapsed between the crash and the arrival of victims at hospitals in rural areas. The National Insurance Crime Bureau (NICB) estimates that the annual

total costs for motor vehicle accidents are into the billions, and 63 percent of injuries are paid by the individual's own automobile insurance, and 55 percent paid for by the other driver's insurance. A major loss cost factor that reparation of cost can never replace is the lost of human life. These statistics prove to be a high percentage regardless of statistics in any territory.

LAW ENFORCEMENT SIGNIFICANCE

In the mid 1980's auto theft records were determined in cities all across the United States. The auto theft rate in the 80's exceeded the national average of comprehensive auto insurance premiums. According to the State Farm Manager interview, urban areas were affected the most. The "shopping mall" theory of a large variety of vehicles in a concentrated area provides opportunity for high car theft in diverse areas. However, vehicles stolen from suburban as well as rural areas, proved that the demand for auto part replacement exceeded the supply of commercial availability (NICB).

In 1985, 75,123 motor vehicles were stolen from Michigan residents- the fourth highest state total in the nation. (See Appendix 3, p. 28). At that time, Michigan's theft rate of 828 per 100,000 population was the second highest in the nation. Residents demanded that government focus its resources to combat this serious problem, but additional tax revenues were not available (ATPA, 2002).

The initiative of the Michigan Anti-Car Theft Campaign Committee (ACT) had been developing a coalition to increase public awareness of the auto theft problem and possible solutions. The ACT's coalition included representatives from community groups, law enforcement, banking, insurance, car rental agencies, automotive manufactures, prosecutors, judiciary, and the general public (ATPA, 2002).

In response to the public's reaction to the stress of losing their means of transportation and resulting higher insurance premiums to pay for the vehicles that disappeared, Michigan's legislature developed (P.A. 10 of 1986) an Automobile Theft Prevention Authority (ATPA). Funding was provided by the ATPA by collecting one dollar from each non-commercial private passenger vehicle insured in Michigan. These funds (approximately \$5.8 million annually) would be collected by insurance companies with their normal premiums and passed on to the ATPA annually.

Through ATPA funding law enforcement consortiums have been allowed to specifically focus on the investigation and apprehension of car thieves. Prosecutors have been able to concentrate on the intricacies of auto theft cases and to convince judges/juries of the seriousness of those crimes. Special teams of local, state, and federal law enforcement agencies assisted by special investigative units (SIU) insurance agents, and agents from NICB were formed and funded through the 16 territorial areas in Michigan. (See Appendix 5, page 30). The ATPA requires a concrete effort and solution of each investigative team with a primary structure fostered by the individual agency's command. Each organization is responsible for facilitating a strategic plan as well as an operational plan, based on the team's vision and mission.

Funding is measured by using the insurance industry's territorial rating system - lost cost factor. It determines the number of officers and agents that will be funded. The variation of funds is shown in Appendix 5, pg. 30 (Michigan ATPA).

The results of all comprehensive and cooperative efforts have dramatically reduced Michigan's auto theft problem. In 1999, Michigan residents experienced 54,018 motor vehicle thefts, a reduction of 25% from 1986's total of 72,021. In relation to other states, Michigan (1986-1999) remains number five in total thefts, but has fallen from first in the rate per 100,000

populations to 6th (1984-1999). From 1986 to 1999, Michigan's theft rate has been reduced by 30.5%. In contrast to Michigan's success story, national auto thefts have fallen 6% since 1986, and the national auto theft rate per 100,000 has decreased 17%. The 1999 FBI Uniform Crime Report (ATPA, 2002) indicates 1, 147, 305 thefts in the nation, which means a vehicle theft occurred about every 20 seconds, and the value of stolen vehicles was more than \$7 billion. As a result, the leadership of Michigan's Special Investigative Teams has kept the comprehensive insurance premiums lower than could be that many motorists pay.

LITERATURE REVIEW

The author reviewed an automobile insurance publication by Michigan in Brief, titled “Automobile Insurance-Background of No-Fault Insurance.” This publication revealed how the insurance requirement came about and the motivation for implementing the law. The report also illustrated Michigan’s culpability to territory redlining by Michigan insurers, and the rate setting methodologies. This report was instrumental to the author for establishing a background of the insurance rating process and the medical cost. This publication depicted several state sources for gathering data and other background information.

A research publication by Lyn Hunstad titled *Measuring and Modifying the Effect of Auto Rating Factors* was reviewed. This report offered information that explained how the insurance industry uses different approaches to measuring the influences of rating factors on consumer premiums.

The author examined a publication by J. Robert Hunter, MAAA, FCAS, titled *Private Passenger Auto Insurance Analysis of Rating Levels and Territory Definitions*. This report provided rating systems that were reported by a National Association of Insurance Commissioners (NAIC) Study. This report provided information regarding the national consensus regarding redlining.

The author reviewed a consumer’s guide to auto insurance in the State of Oregon. This publication assisted the author in identifying an analyses example.

The author reviewed a publication offered by Jerome Harleston, Esq., titled *Automobile Insurance Fraud*. This report gave relevant information about the principles used in factoring rates in territory analyses. This report assisted in defining insurance fraud and explaining the frustrations of quantifying the cost of fraud.

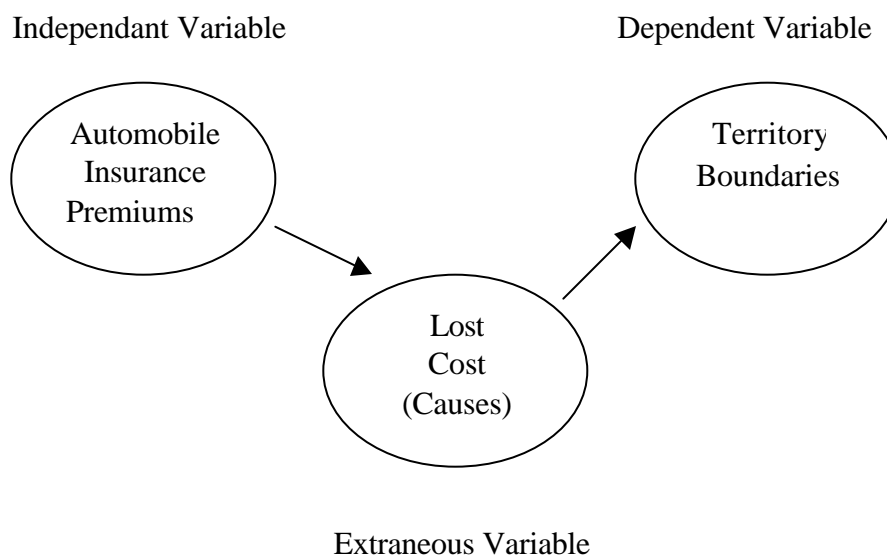
A publication by Marcus Amick, in the *Michigan Chronicle*; titled When Car Insurers do the Math, Detroiters Pay. This report also revealed the process of rate factoring by using the lost cost factor. Furthermore, in this report were the allegations of discrimination by former employees of State Farm Insurance. This report assisted the author in seeking an interview with the anonymous State Farm manager.

Other reviews included the NICB publications of statistics; publications by the Michigan Insurance Bureau, statistics and report of 2001; ATPA publication of statistics and report; and the FBI Uniform Crime Report of national, state and local statistics, 2001. These statistical reports aided the author with gathering raw data for surveying. An online publication of the *U.S. News & World Report* titled Why Auto Theft is Going Global, offered ideas that unveiled lost cost rates pertaining to medical cost and auto body repairs.

PROCEDURES

The analytic approach to estimate and determine the causes of territory rating uses the technique of casual comparative. The basic approach is as follows:

- ◆ Create a database (Michigan insurance [average premiums] companies) that insure 100,000 consumers or more, auto theft statistics, cost lost statistics [vehicle repair and medical], accident statistics, law enforcement effort;
- ◆ Create a model of a currant household;
- ◆ Create a model of territory; (Provided by the Michigan Insurance Bureau, buyers Guide) guide established for territorial
- ◆ Compare the differences in data premium of the territory model



- ◆ Finally, the author conducted an interview with a manager at State Farm. The reason for this selection is State Farm has the highest number of complaints of territorial discrimination. The interview took place, in person, in a public restaurant at the request of the interviewee. The manager was reluctant in answering questions,

therefore to avoid conflict, the author asked general questions regarding the causes of territorial rating from interviewee's professional perspective.

RESULTS

The results of research clearly defined the territorial process involved in the insurance industry. Statistical comparison illustrates the disparity in automobile insurance premiums. It was noted that in Southwest Detroit the premium was 324% higher than in Grand Rapids, Michigan. The direct impacts of territory premiums were measured by the lost cost of auto theft, motor vehicle accidents, and the high cost of replacement and repairs. As the literature review illustrates and supports the manager's interview, insurance fraud is an anticipated lost cost phenomena. According to NICB, auto insurance fraud is expected to impact the entire insurance industry at an epidemic rate. However, the end result of the review shows that while auto theft is down 25% from 1986, the year auto theft set national record highs. The high medical cost associated with auto accidents revealed a 6% increase minus the 4% decrease in insurance rates. The premium off set was a 2% increase in average insurance premiums.

DISCUSSION

The author discovered in the research that the insurance industry has profited above lost cost that is at a national average of about 17%. This is based on lost cost and any contributing factors. Another discovery that was made is in all of the details and justification of lost cost, there are not any absolute models of measuring this issue's classification. Some insurance practices pertaining to lost cost appear in cases whereas drivers with excellent status are charged

excessive premiums, such as one living in Southwest Detroit. In contrast, a driver with traffic tickets and accidents may be charged a lower premium, while living in Grand Rapids. Such measures cannot be justified without revealing the total measuring factor, which may include profit earnings, and the number of actual discounts offered in a particular area.

RECOMMENDATIONS

The law enforcement effort seems to have acquired certain responsibilities in the territory boundaries identified by the insurance process and accepted by state government. However, the staggering numbers of auto theft and insurance fraud is just one of too many, for any area, as is a fatal crash. The focus and energy applied in the effort of combating the factors that insurance companies are faced with annually for lost cost of stolen vehicles and insurance fraud, can equally include the lost cost due to motor vehicle accidents. Additional funding by the ATPA as a pilot program could assist the law enforcement effort through education and traffic enforcement. With the implementation of good vision and a valet mission, the traffic enforcement effort could be just as successful as the auto theft campaign. In addition to reducing auto theft and auto accidents, the specialized teams would have an obligation of “telling the story,” similar to the phenomenal perspective, speeding in the State of Ohio. (The accident rate in Ohio is much lower than the national average.) The state of Michigan would benefit by a model of traffic enforcement similar to that of ATPA, thus impacting the territorial averages as utilized by the insurance industry to redline.

Appendix 1 illustrate the 2002 territories insures use to set premium levels in Michigan.

Appendix 1	
Rating Territories	
Location.....Zip Code	Location.....Zip Code
Southwest Detroit.....48210	Ypsilanti.....48197
Northwest Detroit.....48219	Lansing.....48915
North Central Detroit.....48234	Kalamazoo.....49008
South Central Detroit.....48207	Traverse City.....49684
Northeast Detroit.....48205	Marquette.....49855
Pontiac.....48242	Saginaw.....48601
Macomb–Warren.....48093	Flint.....48506
Wyandotte.....48192	Grand Rapids.....49505

Territories in appendix 1 are subject to change depending on the risk lost cost.

Source: Michigan Insurance Division- 1998 & 2000 Buyer's Guide To Auto Insurance In Michigan

Appendix 2A

Household and Territories Used for Insurance Premium Comparison

A 2000 Household

Married couple, age 35

Both principal drivers

No tickets/no accidents

Household Income: \$65,000 per year

Two children

Wife: One mile commute, one-way to work, 3,000 miles/year

Husband: Twelve mile commute, one-way to work, 12,000 miles/year

CARS

1997 Chevrolet Blazer 4 x 4, 4-dr, Wife

1996 Ford Taurus LX Sedan, 4-dr, Husband

COVERAGES

No-Fault: BI/PD 100/300/100 limits or 300 Combined Single Limit
 PPI \$1,000,000
 PIP medical and work loss excess

Uninsured

Motorist: 20/40

Comprehensive: \$100 deductible

Collision: Broad Form, \$250 deductible

Source: Michigan Insurance Division

Continuation of Appendix 2B

Comprehensive Insurance Coverage as Percentage of Total Premium
(16 Rating Areas)

	Ypsilanti	Lansing	Kalamazoo	Trav. City	Marquette	Saginaw	Flint	Grand Rapids
Allstate Ins. Co.								
Total Premium	3256	2798	2574	2698	2734	2992	3400	3058
Total Comp	764	634	534	720	820	780	756	634
Comp % of Total	23.5%	22.7%	24.6%	26.7%	30.0%	26.1%	22.2%	20.7%
Auto Club Ins.Assn.								
Total Premium	2564	2025	1587	1551	1558	2879	3495	1758
Total Comp	516	378	305	312	319	541	624	312
Comp % of Total	20.1%	18.7%	19.2%	20.1%	20.5%	18.8%	17.9%	17.7%
Auto Owners								
Total Premium	1957	1669	1578	1470	1563	2003	2800	1693
Total Comp	308	262	250	232	246	315	444	237
Comp % of Total	15.7%	15.7%	15.8%	15.8%	15.7%	15.7%	15.9%	14.0%
Citizens Insurance								
Total Premium	2028	1680	1272	1416	1546	2116	2656	1338
Total Comp	360	300	224	250	274	374	472	238
Comp % of Total	17.8%	17.9%	17.6%	17.7%	17.7%	17.7%	17.8%	17.8%
Farm Bur. Mutual								
Total Premium	1936	1527	1495	1241	1496	2059	2542	1769
Total Comp	421	207	262	193	376	331	535	285
Comp % of Total	21.7%	13.6%	17.5%	15.6%	25.1%	16.1%	21.0%	16.1%
Farmers Ins. Exch.								
Total Premium	2851	3098	2848	2816	2475	3251	3346	2956
Total Comp	581	715	651	726	675	738	701	628
Comp % of Total	20.4%	23.1%	22.9%	25.8%	27.3%	22.7%	21.0%	21.2%
Pruden. Pro. & Cas.								
Total Premium	1788	1676	1486	1466	1528	1880	1962	1564
Total Comp	370	340	290	290	314	394	420	290
Comp % of Total	20.8%	20.3%	19.5%	19.8%	20.5%	21.0%	21.4%	18.5%
Secura(Mut.Co)								
Total Premium	1727	1708	1753	1623	1883	2090	2033	1617
Total Comp	360	345	349	343	381	402	396	300
Comp % of Total	20.8%	20.2%	19.9%	21.1%	20.2%	19.2%	19.5%	18.6%
State Farm M- Auto								
Total Premium	2195	2034	1500	1665	1666	2462	3004	2074
Total Comp	375	292	244	310	343	465	554	279
Comp % of Total	17.1%	14.4%	16.3%	18.6%	20.6%	18.9%	18.4%	13.5%

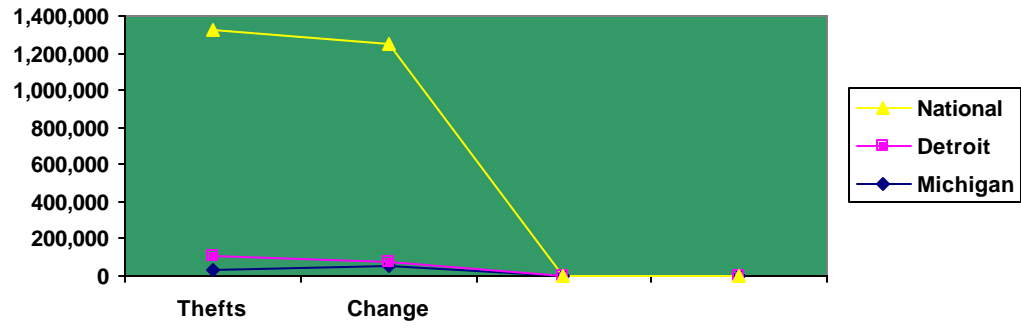
Source: ATPA 2001 Annual Governor's Report

Appendix 3

Michigan, Detroit, and National Theft Rates

Year	State		Detroit		National	
	Thefts	% Change	Thefts	% Change	Thefts	% Change
1986	72,021		31,913		1,224,127	
1987	68,415	-5%	29,811	-7%	1,285,300	5%
1988	67,211	-2%	30,123	1%	1,432,916	11%
1989	65,297	-3%	28,123	-7%	1,564,800	9%
1990	65,220	-0.1%	30,376	8%	1,635,907	5%
1991	65,636	-4%	28,740	-5%	1,661,738	2%
1992	58,037	-7%	27,344	-5%	1,610,834	-3%
1993	56,670	-2%	28,061	3%	1,561,047	-3%
1994	60,227	6%	29,569	5%	1,539,097	-1%
1995	57,895	-4%	29,273	-1%	1,472,732	-4%
1996	62,930	9%	34,265	17%	1,395,192	-5%
1997	59,826	-5%	33,439	-2%	1,353,707	-3%
1998	56,536	-5%	28,651	-14%	1,240,754	-8%
1999	54,018	-4%	26,607	-7%	1,147,305	-8%
2000	53,889	-0.2%	25,892	-3%	1,165,559	2%
% Change		-25%		-19%		-5%

Source: ATPA 2001 Annual Governor's Report



Appendix 4

Comprehensive Coverage as a Percentage of Average total Premiums for Various Michigan Locations

AREA	AVERAGE TOTAL PREMIUM		AVERAGE COMP. PREMIUM		% COMP. PREMIUM	
	1998	2000	1998	2000	1998	2000
Statewide	\$2,671	\$2,919	\$598	\$655	22.4	22.4
Southwest Detroit	4,082	4,616	1,005	1,152	24.6	25.0
Northwest Detroit	3,482	3,973	839	984	24.1	24.8
North Central Detroit	3,856	4,387	956	1,092	24.8	24.9
South Central Detroit	4,073	4,744	995	1,169	24.4	24.6
Northeast Detroit	3,582	4,076	903	1,036	25.2	25.4
Pontiac	2,717	2,980	559	574	20.6	19.3
Macomb County	2,530	2,648	576	587	22.8	22.2
Wyandotte	2,325	2,407	512	518	22.0	21.5
Ypsilanti	2,136	2,256	429	451	20.1	20.0
Lansing	1,893	2,024	358	386	18.9	19.1
Kalamazoo	1,751	1,788	348	357	19.8	20.0
Traverse City	1,666	1,772	349	375	20.9	21.2
Marquette	1,769	1,828	398	416	22.5	22.8
Saginaw	2,2804	2,415	429	482	19.4	20.0
Flint	2,804	2,804	566	545	20.2	19.4
Grand Rapids	1,859	1,981	348	356	18.7	18.0

Source: Michigan Insurance Division- 1998 & 2000 Buyer's Guide to Auto Insurance In Michigan

Appendix 5

Special Investigative Teams	Employees Funded	Grantee Share (25%)	ATPA Share (75%)	Total Budget
Michigan State Police/ Lansing-Innovative Training Grant	2.0		\$218,800	\$218,200
Centerline Public Safety Department	.125	\$1,817	5,453	7,270
Genesee County Sheriff Department	7.0	142,238	426,715	568,953
Detroit Police Department-Carjacking	1.0	41,564	124,692	166,256
Detroit Police Department- Screen Door Team	10.0	184,284	552,852	737,136
Detroit Police Department-CATS Team	13	229,000	686,999	915,998
Detroit Fire Department	1.5	26,414	79,243	105,657
Hamtramck Police Department	2.0	34,095	102,286	136,381
Southfield Police Department	2.0	52,290	156,869	209,159
Oakland County Sheriff Department	7.0	152,799	458,396	611,195
Macomb County Sheriff Department	8.0	180,503	541,510	722,013
Southeast Michigan Team/S.C.A.R.	4.8	111,822	335,466	447,288
Downriver Auto Theft-D.R.A.T.	7.0	145,898	437,693	583,590
Monroe Auto Theft	1.0	27,454	82,361	109,815
Western Wayne Team	10.3	207,699	623,096	830,795
Saginaw Police Department	2.8	46,434	139,302	185,736
Grand Rapids Combined Team	4.0	22,398	67,194	89,592
Lansing Police Department	1.0	22,398	67,194	89,592
Total, Law Enforcement Agencies	86.53	\$1,729,827	\$5,408,280	\$7,138,107
Prosecuting Attorney's Offices				
Genesee County Prosecuting Attorney	1.5	\$24,466	\$73,398	\$97,864
Oakland County Prosecuting Attorney	2.0	57,060	171,181	228,241
Saginaw County Prosecuting Attorney	0.5	10,257	30,772	41,029
Macomb County Prosecuting Attorney	1.0	26,054	78,163	104,217
Wayne County Prosecuting Attorney	7.0	117,099	351,296	468,394
Total Auto Theft Prosecutors	12.0	\$234,936	\$704,809	\$939,745
Total, Non-profit support groups	2.1		\$74,099	\$74,099
Grand Totals	100.63	\$1,964,763	\$6,187,188	\$8,151,951

Source: ATPA 2001 Annual Governor's Report

The ATPA is funded through a \$1 assessment on every insured private passenger vehicle. This revenue has stayed relatively constant since the beginning of the program over a decade ago. Program costs have increased during the same period. As a result, the number of funded sworn officers was reduced from to 99 to 1988 to 79 in 2002.

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