RHODE ISLAND:
ESTIMATED IMPACT OF ADVERSE BAD FAITH BILLS

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RHODE ISLAND: ESTIMATED IMPACT OF ADVERSE BAD FAITH BILLS ON PERSONAL AUTO INSURANCE PREMIUMS

Findings
If adverse first- and third-party bad faith bills had passed in Rhode Island in 2011, PCI estimates that annual, personal auto premiums could have potentially increased by $100.8 million for drivers in the state. This amount translates into an increase of roughly $215 per insured car with liability and physical damage (i.e., collision and comprehensive) coverages.¹

In 2011, Rhode Island’s average annual liability and physical damage premium ($1,149) was 6th highest in the nation.² Had drivers been penalized by paying $215 more per car due to the adoption of bad faith legislation, the state’s premium ranking would have soared to #1 – far surpassing the higher-cost states of New Jersey, Louisiana, District of Columbia, New York and Florida. Instead of being 26 percent higher than countrywide ($1,149 – RI vs. $912 – U.S.), Rhode Island’s average premium would have been 50 percent higher than the norm ($1,364 – RI vs. $912 – U.S.), resulting from an expected growth in bad faith lawsuits.

¹ This PCI analysis uses results from a Berkeley Research Group study, “The Impact of Bad Faith Lawsuits in Florida and Nationwide” (2010) and earlier PCI research on the impact on six states with first-party bad faith laws. Both groups found large percentage increases in loss costs (i.e., costs per car) after the passage of bad faith legislation. These increases were applied to Rhode Island’s premiums (for liability and physical damage [collision and comprehensive] coverages) to determine the potential impact of similar bad faith bills on this state. Collision and comprehensive coverage premiums are included in the analysis because body shops are expected to file bad faith lawsuits in small claims court. Data source: National Association of Insurance Commissioners (NAIC), by permission. The NAIC does not endorse any analysis or conclusions based upon the use of its data.

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Different studies agree that bad faith laws result in higher costs

Additional research examining the impact of bad faith laws has been conducted in the past. Some of these findings are presented below:

- Settlement amounts were higher in states that allow first-party bad faith tort liability.³
- Tort liability for first-party bad faith may reduce insurer’s ability to detect and deter claim fraud, leading to more paid claims that contain characteristics often associated with fraud.⁴
- Claim payments are higher in states that permit first-party tort actions for insurer bad faith.⁵
- The Insurance Research Council (IRC) estimates that Florida’s third-party bad faith lawsuit environment may have resulted in over $800 million in additional auto liability claim payments in 2013. This cost averages to approximately $79 in additional claim costs for every insured vehicle in the state.⁶
- When California’s Supreme Court temporarily allowed third-party bad faith lawsuits, the number of bodily injury claims rose sharply and the annual bodily injury insurance premiums increased between 32 and 53 percent.⁷
- A study by the West Virginia Insurance Commissioner found that insurers in states permitting third-party bad faith lawsuits incur bodily injury claim costs that are about 25 percent higher than the average for non-third-party tort states. This increase caused the legislature to eliminate third-party bad faith lawsuits in 2005, resulting in a savings of over $200 million in loss costs over the next five years.⁸

The Property Casualty Insurers Association of America (PCI) is a national trade association consisting of nearly 1,000 insurers of all sizes and types that write 39 percent of the general insurance in the country. PCI members write 51 percent of the total personal auto market in the country and 70 percent of the total personal auto market in Rhode Island.

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