



High Cost of Insuring Cars in Detroit

Each day in Detroit, while motorists navigate city thoroughfares—Woodward, Jefferson or Gratiot avenues, the Lodge or Southfield freeways—more than half are uninsured. What are the effects? What can be done?

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Shortly after Rita Clark relocated a few miles north from Detroit to Southfield, she discovered a pleasant- yet-disturbing surprise: Her monthly auto insurance premium dropped 35 percent.

"I was paying close to \$200 a month for my auto insurance premium while I lived in Detroit, but as soon as I moved out to Southfield, it dropped by around \$70 a month," says Clark, 52. "At first, I was happy—but then I became a little annoyed when I thought about the fact my driving record hadn't changed, and yet I had been paying such steep premiums all those years in Detroit."

Fortunately, Clark, a job placement counselor, could afford her premiums. For many Detroiters, auto insurance rates are so expensive many motorists cannot, creating an epidemic of uninsured drivers—despite a state law requiring liability coverage. The issue is so insidious that experts agree at least half of Detroit drivers are uninsured, and one local insurance agency owner says his national office warned agents that the number actually is 54 percent. In fact, so few drivers actually made the \$400 monthly liability premiums on older model cars that he finally had no choice but to shutter his last Detroit office.

Outrage over high insurance rates

Here in Michigan, rates are primarily based on ZIP codes and credit scores rather than driving records. And, according to the [Insurance Institute of Michigan](#), the average cost to insure a car in Detroit for one year is \$5,948—or roughly \$495 a month. That's 56 percent more expensive than any other city in the United States.

That has Detroiters Demetrius Woods fed up with paying what he considers unfair insurance rates. He remembers getting an insurance quote before purchasing a Cadillac. The agent said it would be \$4,000 for six months.

He was appalled.

"I hung up, called back and gave my sister's address in Dearborn. They told me \$1,200 for a year," he says. "So you do the math. They are doing us without grease."

Woods is not alone. Other Detroiters are equally outraged, and an ever-increasing number are going without auto insurance out of necessity, experts say.

A toxic combination of unaffordable insurance rates, double-digit unemployment rates and unreliable public transportation has forced tens of thousands—if not hundreds of thousands—of Detroiters to play an automotive version of Russian roulette, risking liability, suspended licenses and even a potential \$500 fine and jail for breaking the law.

Michigan insurers call it driving "bare." In Detroit, it's often known as "riding dirty."

"At least 1.5 million people in Michigan are driving bare, and as many as half the people of Detroit and Flint are driving without insurance," says [Steven M. Gursten, an attorney at Michigan Auto Law in Farmington Hills](#), the state's largest firm specializing in auto accidents.

Unlike many states, Michigan law provides unlimited medical benefits to accident victims for life, and Michigan car owners are required to buy personal injury protection coverage as part of their policy, which cost \$145 per vehicle in 2012.

Cost-prohibitive accident coverage

While Michigan's auto accident coverage is very generous for accident victims, it's cost-prohibitive for the working poor in inner cities, Gursten says.

The average driver carries a double burden of paying for mandated insurance—and the state's insurance commissioner is the only insurance commissioner in the nation without authority to keep insurers from gouging consumers.

"So you have this crazy, insane situation where you've got insurance companies in Michigan—with all the hard times and economic troubles we've gone through in this state—that actually have some of the highest profit margins in the entire nation because they are price gouging, and our insurance commissioner isn't able to say, 'Hey, you're overcharging for a product we're required to buy,' which is no-fault insurance," Gursten says. "That's why insurance is so expensive here."

Nevertheless, Teri Morante, a spokesperson for the [Michigan Department of Insurance and Financial Services](#) and state insurance commissioner Kevin Clinton, says a practical reason exists for industry rates not being subject to an individual commissioner's whims.

"You don't want whoever is commissioner imposing their judgment on the industry," she explains. "You want the commissioner to follow the law. And that's what we do. We have rate regulations and industry regulations, and we review rates and compare costs and the need to make sure they are in compliance with statutes."

Fraudulent insurance

The consequence of unaffordable rates is an ever-growing number of people carrying fraudulent certificates of insurance.

Millicent Sherman, chief magistrate at [Michigan's 36th District Court in Detroit](#), says the problem is out of control.

"It's rampant," she says. "It's particularly prevalent within the city proper because of socioeconomic reasons. It's difficult for people to acquire insurance or maintain it because it's so expensive."

She realizes the people coming before her are not hustlers or hardened criminals trying to beat the system, but primarily hard-working people struggling to make it.

"It's turning into a horrible cycle, and we were criminalizing everyday folks who normally wouldn't be in trouble. They are risking a misdemeanor or a felony by presenting this in court," Sherman says. "And that presents a whole new set of problems."

Impact on small insurance businesses

Those problems also are impacting small insurance agents. At one point, Sam Donahoo operated several [Look Insurance](#) offices in Detroit. Recently, he shuttered his last office that specialized in high-risk auto policies on Detroit's east side.

He insists the situation is far worse than it appears.

"Most of the people were driving older model cars that were made between 1997 and 2005," he says. "And we'd have to require \$400 down and \$400 a month for basic coverage. That was more than their monthly car note, and if the car was paid off, the yearly premium exceeded the value of the car."

"It really got bad over the last five years, when we saw the rates in Detroit raised by 100 percent, from around \$200 down and a \$150-\$300 a month premium to \$400 down and monthly premiums higher than that," says the agent, who maintains an office in Southfield.

The inability to provide affordable insurance to Detroiters has other consequences, Donahoo adds.

"At one time, I operated seven offices in Detroit, averaging about three full-time employees at each office," he says. "I had to eventually lay them all off. So you now have 21 people without jobs—and a loss of both business and personal tax revenue for the city."

With the demise of his business, [Insurance Giant](#) and [L.A. Insurance](#) remain Detroit's primary providers for high-risk, no-fault insurance.

L.A. Insurance offers a controversial seven-day auto insurance policy for nearly \$300 a week, basically to renew registration or retrieve cars from impound lots.

Consequences of driving uninsured

Clark, the job placement counselor, attests to other economic consequences of driving uninsured. She inquires whether or not clients have a valid driver's license and proof of insurance, and often has the unenviable task of screening out otherwise qualified people from certain jobs because they own uninsured cars.

"Auto insurance is a luxury in Detroit for most people. Period," Clark says. "You have to have a decent job to pay for it along with rent or your mortgage, utilities, daily bills. Being able to cover exorbitant auto insurance is a luxury most people in Detroit simply can't afford."

Past attempts to pass legislation to lower insurance rates have failed. Proposal C regarding Act 143 of 1993 to reduce auto insurance rates, place limits on personal injury benefits and allow rate reductions for accident-free driving was defeated by a vote of 60.9 percent to 39.1 percent.

In 2010, the Michigan Insurance Rate Reduction Initiative, a measure meant to cut premiums for good drivers by 20 percent, never made it to the ballot because the petition wasn't filed before the deadline.

Native Detroiter Greg Roberts was intricately involved in the Michigan Insurance Rate Reduction Initiative as former Gov. Jennifer M. Granholm's director of the Office of Community and Faith-Based Initiatives.

He worked feverishly to build support for the initiative, which was based on creating insurance pools with large numbers of individuals to negotiate with insurance companies to base rates on driving records rather than ZIP codes and credit scores.

"It was a project that took a lot of time and effort—and required thousands of people signing on, and, for a variety of reasons, that just never occurred," Roberts says.

What makes the situation so galling, attorney Gursten says, is the insurance companies know the policies are discriminatory against Detroiters and other urban dwellers, but prefer it that way to maximize profit and reduce their liability.

"The bean counters at these insurance companies weren't dumb," he says. "They know full well that Detroit, for example, has I believe the lowest medium income in the nation and then, on top of that, our wonderful Republican Michigan Supreme Court has allowed companies to use credit scoring so people get hammered twice in terms of insurance being very expensive."

Microeconomics

While acknowledging Detroit has insurance rates higher than most of the nation, Morante says there are complex reasons for that. Critical factors such as traffic density and insurers' need to recoup costs that come with doing business in Michigan also play a role. "Unlike other forms of insurance, such as health and workers' compensation, where there are limits and cost controls with those insurances, auto insurers really don't have a lot of power over what they have to pay," she says. "So they pay more than what health insurance and workers' comp would pay for the same service."

Morante's explanations notwithstanding, Gursten says when it's distilled to its essence, the insurance companies simply looked at the microeconomics and realized that, with half of drivers in Detroit driving without insurance, they could save tens of millions of dollars.

Consequently, he says, not a month goes by without someone calling about a loved one being killed, paralyzed or having a limb amputated, and nothing can or will be done about it because they were

uninsured—even if they were sitting at a traffic light and rear-ended by a beverage truck insured for \$20 million.

It means no disability payments for people who can't work ever again.

"If you're driving without insurance in Michigan, you can't collect any no-fault benefits. You can't sue for your own pain and suffering if you're injured by someone else. You could be personally liable for all the vehicle damage of the other driver—and that would include car rental expenses and miscellaneous expenses, as well as for all the other driver's medical bills and wage loss. And then there are some very serious criminal penalties," Gursten says.

"It is all so Machiavellian, and the consequences are incredibly harsh."

However, one sliver of hope still exists. A pilot program to allow low- and moderate-income drivers to buy affordable insurance with reduced medical benefits is being considered. Senate Bill 514, which was proposed during the last state legislative session but died without enactment, would have placed a cap of medical benefits at \$50,000 to \$100,000.

Roberts, the former Granholm official, says it's possible for Detroiters to be offered some relief if Gov. Rick Snyder gets behind the effort. "This governor is open to looking at ways to make sure those persons' insurance rates are based on their driving record and equitable."

Morante agrees. She says one of Gov. Rick Snyder's top priorities this year is to reform the no-fault law and may revive Senate Bill 514 in some form.

"The devil is in the detail. It's definitely a concept we're all interested in," she says. "The time is right now to reform the no-fault law, so we can take care of this problem."