

ALASKA LEGISLATURE COMMITTEE FILES 1903-1904  
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year. Some compulsory insurance laws require motorists to produce evidence of insurance to register and license their automobiles. Others require a self-certification procedure under which motorists attest they have purchased and will maintain the required coverage.

Certificates of insurance or copies of policies in the state administrator's office or in the car mean nothing when there is a notice of cancellation for non-payment of premium at home. Irresponsible drivers can register their cars by purchasing insurance on an installment plan and refusing to make premium payments. Or a person can falsify evidence of insurance, register the vehicle out-of-state, or transfer ownership of the vehicle to avoid enforcement efforts.

Compulsory insurance laws require drivers to have insurance; they do not attempt to define hazardous drivers. They do not provide government with the means to remove high hazard drivers from the road. Even if a state somehow were to achieve the impossible, and every resident motor vehicle was insured, responsible motorists would still lack protection against the following types of irresponsible drivers: operators of stolen cars, uninsured out-of-state drivers, hit-and-run drivers, uninsured motorists whose licenses or registrations have been suspended, or newly arrived residents whose cars are still registered in another state.

Enforcing compulsory automobile liability insurance is a costly, largely inefficient exercise in futility in most states. Compulsory insurance laws will not have a long-term impact on the number of uninsured drivers unless a state's law enforcement, motor vehicle and insurance regulatory agencies are well-financed, well-staffed and highly efficient. A compulsory insurance system requires a state to maintain and police millions of pieces of paper a year. It must conduct random file checks and spot checks for both insured and

uninsured drivers. Such operations are wasteful and inefficient. They squander time and money on the overwhelming percentage of motorists who are already insured.

Compulsory states can expect to be inundated with a blizzard of forms the very first month of operation under a compulsory insurance system. Moreover, the paper-tracking problem grows worse each year. When New York initiated its compulsory insurance system in 1956, the Department of Motor Vehicles immediately found itself buried under six million forms sent to it as evidence of insurance. In no time, the Department was further swamped with changes from new registrations, cancellations and terminations of insurance, changes of vehicles, changes in insurance companies, and name changes. At one point, it was estimated that 80 percent of the 25,000 registration revocation notices sent out by the New York Department each month were incorrect or obsolete by the time they had been mailed.

In no compulsory state have there been any significant post-registration law enforcement efforts simply for insurance purposes. States are understandably reluctant to allocate already scarce crime-fighting resources to track down uninsured motorists. Highway patrolmen are not eager to divert their attention from monitoring the toll of highway injuries, deaths and property damage in order to pull uninsured motorists off the road. Regulatory authorities do not have the financial resources to follow-up, identify, and punish the insurance-avoider after receiving notice of termination.

Pennsylvania and New York are just two of the compulsory states facing monumental difficulties trying to enforce their compulsory systems. The Insurance Federation of Pennsylvania estimates that because of loopholes in enforcement, from 800,000 to 2,000,000 motorists are able to obtain their license plates without having insurance or are able to cancel coverage once the

registration is issued. The director of Pennsylvania's Traffic Safety Bureau has admitted that the 40,000 notices coming in from insurance companies each month on cancellation or lapses are just too much for his staff to handle.

New York faces similar enforcement problems, even though it switched to a self-certification system in 1974 to cut the \$7-million-a-year cost of enforcing its compulsory law. According to recent figures, self-certification is still costing New Yorkers about \$4 million a year and is proving to be as ineffective as the original enforcement procedures. A study by the University of Michigan, made seven years after New York passed its compulsory law, found that there were twice as many uninsured drivers on the roads as there were before the law was passed. Today, it is estimated that New York's uninsured motorist population is at least 15 to 20 percent.

The courts are also reluctant to rigidly enforce automobile liability insurance systems. Most drivers charged with driving without insurance can bargain their way out of a conviction. A majority of state laws provide for a fine and/or prison term for convicted uninsured motorists; but few, if any, uninsured motorists are ever jailed for their crime, no matter what human or property damage they have caused.

Some states have sought to avoid additional costs by omitting any provisions for enforcement from their compulsory laws. They simply declare it unlawful to drive without insurance. However, the press and public soon discover how many irresponsible drivers are still without insurance and they demand stricter enforcement. People justly believe that once a law is on the books, it should be enforced.

The unfortunate thing about a compulsory insurance law is that enforcement, no matter how strict, does little to reduce the number of uninsured drivers on the road. The irresponsible driver is not going to carry

insurance no matter how many certificates he's required to furnish. The driver with very few significant assets to protect is not going to carry insurance because he has no real need for it. Toughening enforcement of a compulsory automobile liability system simply increases insurance costs and adds another layer of expensive government bureaucracy.

Compulsory automobile liability insurance laws are very costly to state government, motor vehicle owners, and insurers.

Why are insurers opposed to a law that forces consumers to buy their product? A major reason is cost. Compulsory insurance means higher costs to state government, motor vehicle owners, taxpayers, and the insurance industry and its policyholders.

Coupled with these higher costs is the problem that very few people benefit from compulsory insurance. Compulsory systems do not guarantee that all drivers on the road are insured. They therefore cannot protect the innocent responsible driver from loss of property or injuries suffered in accidents caused by uninsured motorists. To pay higher costs for a system that does not achieve its goals makes little economic sense.

The cost to consumers of compulsory insurance can be demonstrated by comparing insurance rate levels in states with compulsory systems to rate levels in comparable states without compulsory insurance. Six states that have adopted compulsory insurance in the last ten years were selected for the comparison.

The states and the dates they adopted compulsory liability insurance are California, Jan. 1, 1975; Louisiana, July 1, 1978; Maryland, July 1, 1973; Oklahoma, Dec. 11, 1976; Oregon, Jan. 1, 1976; and South Carolina, Oct. 1, 1974.

Each of the six compulsory insurance states was compared with three similar states which had not adopted compulsory insurance during the specified time period. The analagous states were chosen for their similarity to a compulsory state in demographic characteristics, geographic characteristics and the number of insured vehicles. The results of the comparison survey are shown in the Appendix.

In every instance, the increase in the insurance rate level in the compulsory state was higher than the rate level increases in any of the three comparison states. A reason for the significant increases in the compulsory states is the fact that everyone, including the highest risk drivers, are required to purchase insurance. Although the compulsory systems do not achieve their goal of insuring every motorist, the small percentage of bad-risk, previously-uninsured motorists brought into the system does affect insurance rates.

These few high-risk drivers raise insurance rates for both good and bad drivers. The responsible, insured driver, who already comprises a vast majority of the total driver population, finds himself paying more for his insurance because a few high-risk motorists have been forced to purchase insurance.

Compulsory insurance not only raises insurance costs for responsible drivers, but it also increases government costs. The state of New York has spent over \$9 million in one year in order to enforce its compulsory insurance law. Despite the high expenditure, a significant portion of the population of New York is still uninsured. In fact, a New York Department of Motor Vehicles survey estimated that in 1979, close to a half million registered vehicles in the state were uninsured.

States with compulsory insurance systems pay a high price to obtain a very small percentage increase in the number of insured motorists. California's

state government spent over \$2.3 million to increase the percentage of insured drivers by five percent. Maryland taxpayers had to provide \$1.5 million to achieve the same, unimpressive five percent gain to insured motorists. The people of South Carolina paid \$1.3 million to increase the number of insured drivers in their state by eight percent.

If a state is serious about a compulsory insurance law, it should be prepared to pay the costs of administering and enforcing it. North Carolina is one of the few states that has made an effort to allocate enough money to enforce its compulsory law. Two years ago, North Carolina's compulsory program, supervised by the Department of Motor Vehicles, was totaling approximately \$1.3 million a year. In addition, the record-keeping was done by a computer system at a cost close to \$1.6 million a year, and the state employed 50 state policemen to pick up about 19,000 license plates a year at a cost of \$500,000. States larger than North Carolina can expect to face an even heftier tab to enforce and administer a compulsory system.

Insurance companies also suffer higher costs under compulsory insurance. If a compulsory system is to be effective, regulatory authorities must be informed when people terminate their insurance coverage or when an insurer cancels or non-renews. The notice of termination procedure can prove to be extremely burdensome and costly to insurers. Compulsory systems require increased man-hours and more computer time. Claim frequency, average claim cost and claim fraud all tend to increase under compulsory insurance systems. The industry prefers to allow drivers to insure themselves voluntarily. When irresponsible high-risk drivers are legally coerced into covering themselves, they take only minimum coverage; they pay as slowly as possible, and they add greatly to clerical procedures.

In these times of rising inflation and uncertain economic conditions, imposing the higher costs of compulsory insurance on the public only increases

the burden the responsible driver must carry. In return for this burden the responsible, already-insured motorist receives virtually nothing in the way of benefits. He could receive real benefits and genuine protection against uninsured motorists from any of the less-costly, more efficient alternatives to compulsory insurance.

Compulsory automobile liability insurance laws force individuals to buy a product for which they have no need.

Automobile liability insurance is designed to be voluntary in nature. The vast majority of drivers need liability insurance and recognize the wisdom of purchasing it to protect their personal wealth and assets. Most people buy liability insurance for the same reason they purchase auto theft and collision coverage -- to protect themselves against insurable losses.

Certain drivers, however, would rather not purchase liability insurance. The reasons people give for not insuring their automobiles vary. A 1981 study by the All-Industry Research Advisory Council asked households with one or more uninsured vehicles why the vehicles happened not to be insured. Forty percent of the people surveyed mentioned cost considerations as the reason for the vehicles not being insured. Sixteen percent said the car is not currently in use, 14 percent said the car is not operable and five percent replied that they had just bought the car. Other reasons, cited by less than one percent of the households each, included: not interested in insurance; car is not worth it; expect to sell car soon; policy cancelled by company; no need for insurance, and car is too old.

Obviously, there are drivers who cannot realistically afford liability insurance in view of their personal financial situation. As a practical matter, the economically disadvantaged have less real need for liability insurance because they have fewer assets to protect and tend to be

judgment-proof. For these persons, even low hazard drivers, low limits on liability insurance are considered expensive. In addition, such persons understandably are reluctant to pay high premiums relative to their income for a policy designed for the protection of strangers.

Requiring economically disadvantaged persons to purchase auto liability insurance will not compel them to do so. A study of the uninsured motorist problem in California, which has a compulsory liability system, found that those who are violating the law were predominately the economically disadvantaged. Entitled Profile of Uninsured Motorists in California, the report disclosed that zip code zones with high rates of uninsureds had significantly lower median incomes and more poverty level persons than zip code zones with a low rate of uninsured drivers.

The insurance industry strongly supports the competitive marketplace. An important characteristic of the competitive marketplace is the buyer's right to reject a product. Compelling an individual to purchase a product for which he has no real need weakens the competitive marketplace.

Compulsory automobile liability insurance laws lead to unnecessary harassment of responsible drivers, who comprise a vast majority of the total driver population.

Citizens have complained in recent years that government is interfering more and more in their everyday lives. The 1980 election results have commonly been interpreted as a clear message to all elected officials that their constituents want less, rather than more, government. Compulsory auto liability insurance laws violate this mandate. Compulsory insurance cannot be properly implemented and enforced without creating additional layers of government bureaucracy at an immense cost.

Compulsory insurance laws prove to be unworkable and burdensome when state agencies attempt to apply the enforcement and administrative procedures on a practical basis. Regulatory authorities often are not properly equipped or given sufficient funds to process the large volume of necessary forms and inquiries generated by the law. The majority of responsible drivers become unnecessarily harassed due to bureaucratic inefficiencies and foul-ups. This is an inevitable side-effect of the compulsory auto liability insurance system.

A November, 1982 report by the Pennsylvania Department of Transportation found that the state received 185,547 cancellation or termination notices from insurers in 1980. But only 4.8 percent of those responding to inquiries concerning their insurance status by the Bureau of Traffic Safety Operations were found to be uninsured. That means that thousands of responsible, insured motorists were unduly harassed by a state authority in its efforts to enforce the state's compulsory insurance law.

Nowhere is this harassment problem more clearly evident than in West Virginia, where a particularly burdensome compulsory liability insurance law was enacted in late 1981. From October 1, 1981 through January 1982, the Department of Motor Vehicles had mailed out 196,000 notices of driver license cancellations. It is estimated that 95 percent of those notices went to persons who had never let their insurance policies lapse.

West Virginia insurers are required under the new law to notify the Department of Motor Vehicles (DMV) when policies are about to expire. The DMV, in turn, must mail those persons notices of license cancellation. Problems are occurring because DMV cancellation notices and owners' premium payments are crossing in the mail. The insured car owner who has paid his premium often simply disregards the cancellation notice. He fails to realize that he is still required to submit a new certificate of insurance to DMV. Then the DMV doesn't receive the notice, it issues a license pick-up to the state police.

To date, more than 2,500 orders have been issued. The DMV admits that most of the pick-up orders were mistakes and imposed on responsible individuals who had insurance on their cars but simply disregarded the notice.

According to officials in the West Virginia DMV, the law has resulted in a mountain of paperwork and has created unnecessary hassles for many premium-paying citizens. The Department had to ask the legislature to revise the law to correct the administrative debacle. Remedial legislation was enacted in 1982 and the legislature will have to continue making improvements in the compulsory law in 1983. Other states also have had to amend their compulsory laws over the last couple of years, including Colorado, Kansas, Louisiana, Montana, New York and Oklahoma.

One prominent West Virginia legislator, William Carmichael, was quoted as saying, "I don't remember anything this legislature has ever passed that has upset the citizens of this state as much as the compulsory law has." The legislator further observed that "support for compulsory insurance has dropped among my constituents."

Provisions in compulsory insurance laws requiring evidence of insurance also result in public harassment. Many compulsory states require the motor vehicle owner to provide evidence of insurance upon registration of the vehicle. Proof-of-insurance forms, such as certificates of insurance or prescribed identification cards, are a constant nuisance for responsible drivers and easily circumvented by insurance dodgers.

Certificates of insurance are issued by the insurance company for the insured to submit when registering his vehicle. Such certificates inevitably generate even more certificates. Communications between the public, the insurance industry and the regulatory authorities snowball in a futile attempt to identify the uninsured registrant. With each additional transaction, the

likelihood that a form will be issued by mistake or lost intensifies. It's the responsible motorist who often falls prey to these administrative blunders.

Prescribed identification cards, which are provided upon the issuance and renewal of a policy, have also proven to be a problem. Payments or renewal premiums are frequently delayed, so the responsible insured motorist is harassed unnecessarily.

West Virginia isn't the only state in which responsible insured drivers are harassed and frustrated by an unwieldy and burdensome compulsory law. During the first 15 years of New York's compulsory liability law, insurers were required to notify the New York Bureau of Motor Vehicles whenever coverage had been cancelled. Every time a policyholder was late sending in his payment, every time the premium was delayed by the mail, or even when the policyholder decided to change companies, the insurance company was required to notify the DMV. The DMV then sent a notice to the insured threatening to pick up his plates. This naturally angered a lot of responsible insureds, who would fire off irate letters to their insurance companies asking why they had wrongly informed the DMV that they lacked coverage. In 1973, these notice requirements were dropped, but were ill-advisedly reinstated in 1981.

In summary, efforts by state regulatory authorities to achieve total compliance with the compulsory law results in the unnecessary harassment of the majority of drivers who are financially responsible.

Compulsory automobile liability insurance laws are more expensive and have more deficiencies than the cost-effective, viable alternatives which are available.

Among the cost-effective alternatives to compulsory insurance are improvement of Financial Responsibility laws, Uninsured Motorist Protection, and No-Fault Auto Insurance.

## IMPROVED FINANCIAL RESPONSIBILITY LAWS

Financial Responsibility laws require certain individuals to prove they will be able to pay damages that might be awarded to other accident victims. Generally, they can show proof with a liability insurance policy providing minimum required benefit limits, by posting a bond for the same amount, or by depositing cash or securities in that amount. If they fail to do so, they face the possible suspension or revocation of their driving license for a certain length of time.

Today, Financial Responsibility laws requiring security for past accidents and proof of financial responsibility for future accidents are in effect in all of the noncompulsory insurance law states. This cost-effective, viable alternative to compulsory insurance is already in place; there's no need to consider or enact new legislation. By making improvements in their state's current Financial Responsibility Law, legislators can develop a workable plan that would protect insured motorists more effectively, cost less, and involve fewer administrative and enforcement hassles than would a compulsory liability insurance system.

Financial Responsibility (FR) Laws have other distinct advantages over compulsory liability insurance laws. A compulsory auto liability law is directed at all motorists regardless of traffic convictions or accident involvement. By comparison, FR laws only apply to a limited group of motorists: those who are serious traffic law offenders, those who cause major automobile accidents, and those who are financially irresponsible due to their inability to reimburse others for damages they have caused. FR laws do not affect motorists indiscriminately. They focus only on drivers who deserve close surveillance because of their past driving irregularities.

Because FR laws do not apply to all drivers, the cost of enforcement is greatly reduced, insurance company operating costs are cut, and the great

majority of responsible motorists are not harassed by state efforts to enforce compulsory insurance. Under FR laws, state pressure is not automatically exerted on motorists who cannot afford to buy insurance and those who have no need for liability coverage.

A compulsory insurance law may, and generally does, affect only drivers registering their motor vehicles. Even then it may apply on a limited basis to only the in-state registrants of certain types of motor vehicles, such as private passenger cars. A Financial Responsibility Law, on the other hand, can apply to any motorist regardless of whether his vehicle is registered in-state or out-of-state, and regardless of the type of vehicle involved, private passenger or commercial.

In comparison to a compulsory insurance law, a well-enforced Financial Responsibility Law is far less costly to administer and just as effective in dealing with irresponsible drivers in the state. However, an FR law cannot be effective if the state agency responsible for administering the law is not receiving the information necessary for proper enforcement. The monetary threshold for those property damage accidents which the driver are required to report to the state should be no higher than \$200 or \$250. Increasing the monetary accident reporting threshold will reduce the number of accident reports processed and allow many irresponsible drivers to escape early detection, surveillance and state penalties.

In addition to preserving the value of accident reporting data, the state should make certain it is receiving data on all traffic violations, police reports, and court judgments required by law. Measures must be adopted to compel law enforcement and court officials to submit any required accident/violation and judgment/conviction data to the appropriate state driver control agency.

Greater attention should be focused on processing the Financial Responsibility filings and traffic record/court record data in a more timely fashion. A state should be certain the equipment and manpower available to its Motor Vehicle Department is being used effectively and efficiently. The enforcement of the Financial Responsibility law should not be second priority to the compilation of traffic and accident statistics or other record-keeping responsibilities.

#### UNINSURED MOTORIST PROTECTION

Individuals should be concerned about their liability for damages to others, but many motorists either have no assets to protect or are unwilling to purchase liability insurance and therefore go uninsured. To protect the innocent, responsible person against a loss covered by an uninsured motorist, insurance companies provide Uninsured Motorist Coverage (UM). This coverage is designed to pay for bodily injury damages to the policyholder caused by an uninsured motorist. If the policyholder's car is struck by an uninsured vehicle, the insured's loss is covered under the Uninsured Motorist portion of the policy. Reasonable premiums are charged for this coverage.

Every state with a compulsory liability insurance law also requires insurers to offer coverage. The fact that legislators feel compelled to make this protection available to drivers demonstrates that they do not trust the effectiveness of a compulsory liability insurance system. They are acknowledging that a compulsory system does not protect responsible, insured drivers from losses suffered in accidents with uninsured motorists.

Most drivers in compulsory states do indeed buy the UM coverage for added low-cost protection against loss. These responsible drivers therefore carry a double economic burden by paying premiums for UM coverage, and by bearing the cost of enforcing a compulsory insurance law.

By purchasing Uninsured Motorist coverage, a motorist is guaranteeing that all future drivers and passengers in the insured auto will be protected from losses caused by an irresponsible, uninsured motorist or a hit-and-run driver. Compulsory liability insurance cannot make such guarantees.

#### NO-FAULT INSURANCE

No-Fault insurance is a system which enables auto accident victims to recover benefits regardless of fault. This is not possible through compulsory automobile liability plans which fail to adequately address the problem inherent in the tort system and fail to guarantee recovery of losses. The U.S. Department of Transportation reports that almost 55 percent of those seriously injured in auto accidents get absolutely nothing from automobile liability insurance. No-Fault insurance relieves the financial suffering of those drivers involved in accidents with uninsured motorists.

No-Fault also eliminates lawsuits arising from smaller, relatively trivial claims and provides prompt payment for injuries to those needing the money most. By contrast, the compulsory auto liability system would continue indefinitely one of the common complaints of the present tort system, providing extra-ordinarily large claim awards for relatively minor injuries. Under no-fault, the recovery benefits are spread more evenly, making certain that all claimants receive adequate compensation.

It is little wonder that the no-fault method of compensating victims of uninsured motorists has enjoyed a lot of popular appeal over the past ten years. Virtually every segment of the insurance industry and representatives of major consumer groups support state no-fault plans, praising no-fault's advantages. These advantages include:

A reduction in the volume of lawsuits.

An end to the incentive toward exaggerating injuries.

A quick and efficient method of payment directly to the accident victim.

An end to the need for determining the negligence in any given accident.

A better distribution of the insurance premium dollar.

Coordination of benefits, with provision for prompt rehabilitation.

Stabilization of auto insurance costs.

Although this particular battle may be over for now, the trial lawyers who so often support compulsory liability insurance ought to be aware that the promotion of compulsory liability insurance is also an invitation to consumers and the public to re-open the no-fault insurance issue.

#### CONCLUSION

In summary, the insurance industry's opposition to compulsory automobile insurance systems is based on sound logic. Compulsory insurance laws are expensive, ineffective, and do not fulfill the well-intentioned goals set by the lawmakers who create them. State legislators concerned with protecting innocent drivers from financial blows suffered in accidents caused by uninsured motorists should consider exploring and implementing alternatives to compulsory systems, such as, stricter Financial Responsibility Laws, Uninsured Motorist Protection and No-Fault Insurance. The alternatives can and do provide more certain compensation to a greater number of responsible drivers, without trying to force everyone to buy a product which they may or may not want.

APPENDIX

INSURANCE RATE LEVELS IN STATES WITH COMPULSORY SYSTEMS VERSUS INSURANCE  
RATE LEVELS IN COMPARABLE STATES WITHOUT COMPULSORY SYSTEMS

<u>Compulsory States (a)</u>	<u>Comparable States (b)</u>	<u>Overall Pure Premium Percentage Change (c)</u>	<u>Average Annual Pure Premium Percent Change (c)</u>
<u>CALIFORNIA (1/1/75)</u>		<u>43.0%</u>	<u>8.2%</u>
	Illinois	24.2	5.5
	Ohio	17.7	3.4
	Texas	34.0	6.0
<u>LOUISIANA (7/1/78)</u>		<u>14.2%</u>	<u>11.2%</u>
	Alabama	0.1	0.9
	Mississippi	-1.2	1.4
	Tennessee	1.6	-1.3
<u>MARYLAND (7/1/73)</u>		<u>43.3%</u>	<u>7.9%</u>
	Indiana	21.3	5.0
	Virginia	32.0	6.2
	D.C.	23.9	4.4
<u>OKLAHOMA (12/11/76)</u>		<u>11.6%</u>	<u>3.7%</u>
	Arkansas	10.9	3.5
	Iowa	7.0	2.8
	Missouri	3.7	1.0
<u>OREGON (1/1/76)</u>		<u>35.0%</u>	<u>8.4%</u>
	Maine	19.6	3.9
	West Virginia	18.8	6.8
	Wisconsin	12.8	3.7
<u>SOUTH CAROLINA (10/1/74)</u>		<u>27.0%</u>	<u>5.6%</u>
	Alabama	22.5	5.5
	Arkansas	21.1	4.1
	Tennessee	14.9	2.9

- (a) - The figures in the parentheses by the compulsory states are the effective dates of their compulsory laws.
- (b) - The comparison states were chosen for their similarity to a compulsory state in demographic characteristics, geographic characteristics and the number of insured vehicles.
- (c) - The liability pure premium ratio was used as a basis for comparison because it represents the average amount of loss per insured vehicle. An increase in pure premium suggests that the average claim per insured vehicle has risen as a result of the inclusion of those motorists who did not carry auto liability insurance prior to the adoption of the compulsory law.

SOURCE OF DATA: Fast Track Monitoring System, comprising loss experience of companies reporting to the National Association of Independent Insurers and the Insurance Services Office. The Fast Track Monitoring System loss experience begins with data for the year ending fourth quarter 1976.

TIME PERIOD: The time period selected for comparison purposes is that period after which each compulsory law has become effective (and limited to when the Fast Track Monitoring System loss experience begins) through the year ending second quarter 1981.

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# YOU CAN SAVE MONEY ON AUTO INSURANCE

There are ways you can cut your auto insurance costs. Many factors affect the amount of premium you pay. The following list of money-saving ideas may help you reduce your own insurance costs:

- **INCREASE YOUR DEDUCTIBLES** for both collision and comprehensive coverages. These are the coverages that pay for physical damage to your car. Because small claims are costly to settle, insurance companies don't charge you as much premium when you agree to pay for these small losses through a deductible. The higher your deductible, the lower your premium. Chances are good you'll never have to pay that deductible if you're a careful driver. Although the amount you save varies, the premium reduction will probably equal the amount you "risky" through the higher deductible in just a few years of accident-free driving.
- **COMPANY DISCOUNTS** can reduce your premium. Most companies offer lower premiums if you insure two or more cars with them. Some give a discount to students with good grades. And some allow a premium credit if a young driver is away at school more than 100 miles from where the insured car is garaged.
- **REDUCE OR ELIMINATE COLLISION AND COMPREHENSIVE COVERAGES** as your car gets older. These coverages provide physical damage protection for your auto. If your car is an older model (5 years or older), it has depreciated in value to the point where you may be paying more in premiums than the car is worth. You should keep your auto liability coverage, however.
- **DRIVE SAFELY.** One at-fault accident or traffic violation can increase your premium as much as 40%. Your insurance costs will remain low as long as you remain accident and violation free. Check with your insurance agent or company to determine if you are now paying a surcharge because of your driv-

ing record. If so, be especially cautious in the future and your clean driving record will pay off.

- **PARK DEFENSIVELY.** Don't park on the street where your car can be stolen, vandalized or hit by another vehicle. Close the windows tightly and always lock the car.
- **CONSIDER AUTO INSURANCE COSTS WHEN BUYING A NEW CAR.** Premiums are higher for certain luxury and sport models because of their greater accident, damage and auto theft experience. Your insurance agent or company can give you specific information.
- **REDUCE YOUR DAILY DRIVING.** The farther you drive to work each day, the more likely you are to be involved in an accident - and the more you pay for insurance. Check to be sure the number of miles you drive to work is correctly listed with your insurance company. If you move and change your address, always notify your agent or company. You may now live in a lower rated territory.
- **CONSIDER JOINING A CAR POOL OR TAKING A BUS TO WORK.** Cars that aren't driven to work every day generally qualify for lower insurance rates.

If you join a car pool, be sure your auto policy includes medical payments coverage for the protection of your passengers. Also, be sure to share the actual driving rather than charging your passengers with the intent to make a profit, since this charge could be considered a "public livery fee" (such as a taxi fare) and you might not be covered by your personal auto policy.

Now that you have reviewed the list, check those suggestions that you think could save you money. Then, contact your insurance agent or company and review the list with them. Your insurance representative may be able to offer additional suggestions and tailor your auto insurance to your needs.

# AUTO INSURANCE RATEMAKING

## Factors that Determine Auto Insurance Premiums

Many factors affect auto insurance premiums. In fact, automobile rate manuals for most insurance companies in Ohio include more than 150 different classifications for rating purposes. These classifications help companies categorize your driving exposure to loss and charge an appropriate premium. Thus, your own personal situation has a bearing on the price you pay for auto insurance.

Auto insurance rates are affected by many influences over which companies have no control. They include the frequency and severity of traffic accidents, repair costs, medical and hospital costs, wage levels and the size of court judgments. The pages that follow detail Ohio experience over the past five years for hospital costs, auto repair costs (parts and labor) and the resultant auto insurance premiums.

- Auto insurance pays the wages of people who are disabled — for weeks or months — because of injuries suffered in auto accidents. And the wages of all classes of workers are up.
- Auto insurance pays garages and body shops to repair damaged autos. The hourly repair rates are up. Parts prices are up.
- Auto insurance companies pay hospital and medical expenses of accident victims. Hospital employees are earning better pay, doctors' fees are up, and all this is reflected in increased daily hospital costs.

The combination of frequency and severity constitutes that portion of your premium which goes to pay losses.

The *frequency* of accidents is simply how many and how often accidents happen out of a specified number of cars on the road. The higher the frequency, the more insurance companies must pay out.

The *severity* of accidents is reflected in the typical amounts paid out for an accident claim.

This amount has risen for several years due to in-

creased costs to repair people as well as automobiles. Inflation continues to affect the cost of nearly everything.

In an effort to keep auto insurance affordable, insurers are working on ways to reduce the number of auto accidents that occur as well as improve the design of vehicles and highways to keep passengers from being injured or killed. (See section on Auto Design.)

In compliance with the State law that auto insurance rates must be adequate, most insurance companies increased auto insurance rates during recent years. However, because of the reduction in accident frequency, the increases in auto insurance rates have been less than consumer price increases for auto repairs, medical and hospital expenses and wages.

An expense flattening provision was adopted by the insurance industry in 1979. Certain expenses such as administrative costs, were divided equally among policyholders. This permitted a reduction in the expense portion of the insurance premiums allocated to higher rated risks such as youthful drivers and policyholders in higher rated metropolitan areas. (For details, refer to next section entitled "Factors Determining What You Pay for Auto Insurance").

Despite recent reductions in the overall rate of inflation, experts predict continuing increases in auto repair costs and medical expenses. These increases will continue to dramatically influence the cost of automobile insurance.

In 1981 the Ohio Legislature passed new taxes which substantially impact insurance companies. Additionally, other changes in Ohio statutes have occurred over the past several years which increase claims payments. These legislative actions also ultimately influence what Ohioans pay for automobile insurance.

The decline in accident frequency has been matched by the increased costs of accident claims. Only the continued reduction in accidents will moderate the impact of rising auto accident costs.

# FACTORS DETERMINING WHAT YOU PAY FOR AUTO INSURANCE

There are many variables involved in the determination of auto insurance rates. But, your own personal situation will have a direct bearing on the rate you pay. These variables also explain why different drivers may pay different rates for the same auto insurance policy. These are the most common situations:

## AGE OF DRIVER

If there's anything on which all the traffic safety experts agree, it's that young drivers have more accidents...and more serious accidents...and that young males are "worse" than young females. (See section entitled Youthful Drivers).

A teen-age girl in the family can increase the auto insurance bill from 20% to nearly double... and a teen-age boy, even though he only occasionally drives the car, can triple the cost of insurance. If he's the principal operator of his own car, the tab for insurance can rise to four or five times the premium his parents alone would have to pay.

The rates that insurance companies charge for cars operated by youthful drivers are based on years of accumulated statistics which establish the relative differences between young drivers as a group and adult drivers...and between different classes of young drivers.

The surcharge on female youthful drivers lasts only until they marry or, depending on the company, until they reach the age 21 or 25. Married men also get a break, while young single males are charged more until age 29.

And young drivers...single or married, male or female...can be consoled by the fact that as they grow older and become more experienced drivers, the cost of automobile insurance goes down. With some companies it drops year by year, with others at certain specified ages.

Many companies give discounts when the youthful driver maintains a certain level of academic achievement in high school or college...or after he has completed an accredited driver education course.

Following are some details on Youthful Driver rates which are generally followed by the majority of companies:

Where there are more cars in the family than

youthful operators, the youthful operator surcharges will usually be applied to the most expensive car or cars, except that a youthful owner or principal operator will be charged on the car he regularly drives.

1. If there is more than one car and more than one youthful driver in the family, surcharges will be made on as many cars as there are youthful drivers...if the family has that many cars.
2. No charge will be made for a youthful family member who is in military service and drives only when on furlough, but a charge will be made when there is regular or frequent use, such as on weekend passes.
3. A premium credit is given when an unmarried youthful operator is a resident student at a school more than 100 miles from home and does not have the car at school.

## TYPE OF CAR

Generally, the model car you drive affects only the cost of those insurance coverages which apply to repairing or replacing that car. The premiums you pay for liability insurance, medical payments, uninsured and underinsured motorist coverages are not affected by the kind of car you drive, unless it is a "high performance vehicle."

The cost of comprehensive and collision coverages is directly related to the cash value of the car. Some insured losses require that the car merely be repaired, others that it be completely replaced. And some vehicles are more expensive to repair or replace than others.

Since it would be entirely too unwieldy and expensive to develop and maintain a value record on each individual automobile, insurance companies group all cars into brackets according to two factors...purchase price new and age.

A consideration in determining the approximate value is the age of the car. Most companies use age brackets for establishing rates. Current year models fall in the first group, those from the preceding model year in the second, and so on for several model years.

However, starting with 1980 model year cars, a

number of companies have modified their rating procedures. Statistics are now available to substantiate a difference in the extent of damage sustained by the various models and types of cars. Certain cars sustain less damage, on the average, and therefore cost less to repair than others in the same price range. Accordingly the premiums have been reduced on some models and increased on others for more equitable premium determination based upon the damage-ability potential.

Even though you may be willing to pay a little more for insurance in order to drive the car you prefer, you might want to check with your agent or company before you buy your next car.

## WHERE YOU LIVE

The area where you live directly affects your auto premium. In general, the bigger your city, or the more densely populated the area in which you live, the higher your auto insurance rates will be.

Where you live can affect both your likelihood of having an accident and the probable cost of paying for that accident. Accident frequency tends to be greater in areas of high traffic density. Accident severity tends to be greater in areas where roads and road conditions (free-ways, for example) encourage high speed driving. When both these factors are considered, those who live in the major metropolitan areas will pay the most for their automobile insurance, all other things being equal.

Wage levels are another factor. In heavily industrialized, densely populated metropolitan areas, wage levels are generally higher...and this shows up in higher hospital costs, higher automotive repair costs and larger settlements for lost wages in bodily injury cases. These add up to higher insurance rates for rating territories having these high-hazard characteristics.

Rating territories are designated geographical areas used by automobile insurance companies to accumulate statistics on premiums received and losses paid. On the basis of these statistics, proper rate levels are determined. What comprises a territory is less a function of area than of population. It may be a single county, or a number of counties grouped together. In a few heavily populated areas, there may be two or even three rating territories within a single county where accident experience has demonstrated a need for different rates in order to pay different levels of insured loss.

This arbitrary division of the state of Ohio into 30

or 40 territories for rate making purposes could produce auto rate inequities in some individual cases. Undoubtedly it does, just as the same kind of arbitrary boundaries of political subdivisions occasionally result in inequities in the tax burden. But any attempt by the insurance companies to base rates on a significantly finer, more detailed geographical breakdown would add so much to their administrative expenses that all of us would end up paying more for automobile insurance.

## HOW YOUR CAR IS USED

The little old lady who never took her car out of the garage except to drive three blocks to church every Sunday may not exist except in the imagination of some used car salesman. But she would be charged a lower premium for her automobile insurance than most of us would.

With the amount and the kind of driving she does, she has relatively less chance of being involved in an accident than people who drive many more miles and under more hazardous traffic conditions.

All other things being equal, the more miles you drive the greater the likelihood that you will have an accident. And...again assuming that all other factors are equal...accidents are more likely to happen to people who do most of their driving on congested city streets or high speed highways, as opposed to residential streets and secondary rural roads.

In one way or another, all these factors are taken into consideration in the formulas used to determine the amount you pay for automobile insurance. But not all insurance companies approach the problem in exactly the same manner.

Most companies do not consider the number of miles you drive annually, although there are some that offer lower rates to people who drive fewer than a specified number of miles a year.

The car that is driven to and from work is likely to be driven more miles than the one that is not. And those "to and from work" miles are likely to be on congested streets and highways. So..."to and from work" is almost always a consideration. But some companies charge higher rates on any car that is regularly driven to and from work, while others make this differentiation only if the distance to work one way is more than a stated minimum.

For much the same reasons, all companies charge even higher rates when the auto is used

# State Farm Insurance Companies

ONE STATE FARM PLAZA  
BLOOMINGTON, ILLINOIS 61701

MAY 11 2 54 PM '83

May 10, 1983

JOHN J. GORDON  
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(309) 766-3537

LAW DEPARTMENT

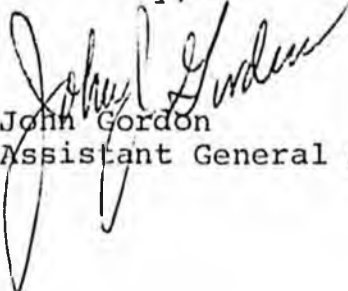
Don Koch  
Chief Market Surveillance  
Division of Insurance  
State of Alaska  
Pouch "D"  
Juneau, AK 99811

Dear Mr. Koch:

In a conversation this afternoon with John Glascock of our Salem, Oregon, office, I was told that you were drafting a response to an adverse article in the news media on the compulsory insurance issue. John asked that any material we might have on the cost of enforcement of compulsory insurance and any information on increasing insured drivers as a result of compulsory legislation, be forwarded promptly to you.

Enclosed is a copy of Jean Hiestand's statement to the Tennessee legislature in September 1981, as well as Dr. John Ball's testimony on the same date. The most recent testimony was provided by John Bernstein of our department to the Illinois legislature on March 22, 1983. A copy is enclosed, together with a memorandum from the Commerce and Labor Committee of Tennessee, a letter from the Wisconsin State Auditor to Wisconsin legislators and West Virginia news clippings. Hopefully, these materials will provide some additional information.

Sincerely,

  
John J. Gordon  
Assistant General Counsel

j1  
Enclosure  
cc John Glascock

MY NAME IS JOHN W. HALL, CHAIRMAN OF THE DEPARTMENT OF INSURANCE  
(INCLUDING ACTUARIAL SCIENCE, RISK MANAGEMENT, ESTATE AND FINANCIAL  
PLANNING AND LEGAL STUDIES), THE COLLEGE OF BUSINESS ADMINISTRATION,  
GEORGIA STATE UNIVERSITY. I AM HERE TO SPEAK AGAINST THE CONCEPT OF  
COMPULSORY LIABILITY INSURANCE. I AM APPEARING TOTALLY AT MY OWN EXPENSE.

COMPULSORY LIABILITY INSURANCE HAS BEEN OPPOSED TRADITIONALLY BY THE  
PRIVATE INSURANCE BUSINESS. THIS STATEMENT NEEDS AN EXPLANATION, FOR MOST  
PEOPLE BELIEVE THAT THIS BUSINESS WOULD SUPPORT ANY MECHANISM WHICH WOULD  
GUARANTEE MORE SALES. THIS IS NOT THE CASE.

DESPITE INDUSTRY OPPOSITION, I ONCE STRONGLY SUPPORTED COMPULSORY  
LIABILITY INSURANCE. YOU HAVE HEARD THE ARGUMENTS IN FAVOR OF COMPULSORY:

1. "UNDER THE TORT LAW SYSTEM, A PERSON WHO IS JUDGED LEGALLY RESPONSIBLE  
SHOULD ALSO BE FINANCIALLY RESPONSIBLE IF HE IS TO ENJOY THE PRIVILEGE  
OF DRIVING:

OR

2. FOLLOWING AN ACCIDENT WHERE AN INNOCENT DRIVER WHO BUYS LIABILITY  
INSURANCE IS STRUCK BY A JUDGMENT PROOF UNINSURED DRIVER, ONE HEARS  
THE ANGRY COMMENT: "I CARRIED LIABILITY INSURANCE TO PROTECT OTHER  
DRIVERS WHEN I AM AT FAULT, AND THEY SHOULD BE FORCED TO BUY LIABILITY  
INSURANCE TO TAKE CARE OF ME FOR THEIR NEGLIGENCE";

OR

3. "SUPPOSE THAT TWO POOR PERSONS ARE IN AN ACCIDENT, AND BOTH ARE  
WITHOUT INSURANCE. WHO WILL PAY FOR THAT ACCIDENT? THIS ARGUMENT

IMPLIES THAT COMPULSORY LIABILITY INSURANCE IS FOR THE BENEFIT OF THE POOR. IMPLICIT IS THE ARGUMENT THAT WHEN LIABILITY INSURANCE IS AVAILABLE, WELFARE COSTS ARE MINIMIZED.

THESE ARE STRONG AND EMOTIONAL ARGUMENTS. HOWEVER, AS I OBSERVE COMPULSORY LIABILITY INSURANCE LAWS IN ACTION, I HAVE CONCLUDED THAT THEY TEND TO BE DETRIMENTAL TO THE INTEREST OF MOST CONSUMERS, AND MORE EXPENSIVE FOR THEM, THEY ARE DIFFICULT AND EXPENSIVE TO ENFORCE AND THEY ARE AGAINST THE LONG RUN INTEREST OF THE TORT LAW/LIABILITY INSURANCE SYSTEM WHICH I SUPPORT.

THESE CONCLUSIONS WILL BE EXPLAINED IN A MINUTE. BUT FIRST, A BRIEF REVIEW OF THE HISTORY OF COMPULSORY LIABILITY INSURANCE WOULD PROVIDE IMPORTANT PERSPECTIVE.

AS EARLY AS 1919, LEGISLATIVE PROPOSALS WERE MADE IN MASSACHUSETTS REQUIRING COMPULSORY AUTOMOBILE LIABILITY INSURANCE. THE MOVEMENT SPREAD WIDELY, AND BY 1925, ONE HALF THE STATE LEGISLATURES INTRODUCED BILLS. MASSACHUSETTS ENACTED A COMPULSORY LAW, TO TAKE EFFECT AT THE BEGINNING OF 1927, THE FIRST STATE TO DO SO. THE APPROACH PROVED UNPOPULAR - BOTH WITH LEGISLATORS AND INSURERS - AND IT WAS NOT UNTIL 1956 AND 1957 THAT COMPULSORY AUTOMOBILE LIABILITY INSURANCE SYSTEMS WERE ESTABLISHED IN NEW YORK AND NORTH CAROLINA.

IN THE MEANTIME, OTHER STATES WERE EVOLVING A MORE LIMITED FORM OF COMPULSION - THE FINANCIAL RESPONSIBILITY LAW. SUCH A LAW HAS BEEN ENACTED IN ONE FORM OR ANOTHER IN EVERY JURISDICTION OF THE UNITED STATES AND EVERY PROVINCE OF CANADA. THE PRINCIPAL REASON FOR THE FAILURE OF THE

EARLY COMPULSORY MOVEMENT WAS THE FINANCIAL RESPONSIBILITY LAW. IN DECEMBER OF 1928, ON THE ASSUMPTION THAT IT WAS SOUNDER STRATEGY TO BE FOR A PROGRAM THAN AGAINST ONE, THE AMERICAN AUTOMOBILE ASSOCIATION, IN COOPERATION WITH INSURANCE AND OTHER INTERESTS, RELEASED ITS FIRST MODEL FINANCIAL RESPONSIBILITY BILL AS A PART OF A GENERAL SAFETY PROGRAM. THE UNIFORM VEHICLE CODE ADOPTED BY THE NATIONAL CONFERENCE ON STREET AND HIGHWAY SAFETY, IN 1924, INCLUDED THESE SAME PRINCIPLES. THE CURRENT UNIFORM MOTOR VEHICLE CODE INCLUDES A FINANCIAL RESPONSIBILITY LAW. FOR YEARS, INSURERS FATHERED AND SUPPORTED THE FINANCIAL RESPONSIBILITY LAW CONCEPT AS AN ALTERNATIVE TO SOMETHING THAT THEY REGARDED AS MUCH WORSE - COMPULSORY LIABILITY INSURANCE.

TODAY, 30 STATES HAVE COMPULSORY LIABILITY INSURANCE, AND IN MOST STATES, IT WAS PASSED AS A PART OF A NO FAULT PACKAGE. A GREAT PART OF THE INSURANCE BUSINESS SUPPORTED AUTOMOBILE NO FAULT, AND COMPULSORY LIABILITY INSURANCE WAS AN UNFORTUNATE PART OF A POLITICALLY AND CONSTITUTIONALLY FEASIBLE NO FAULT PACKAGE. (IN RETROSPECT, THE SO CALLED "NO FAULT" LAWS WERE REALLY NOTHING MORE THAN A MODIFIED COMPULSORY LIABILITY INSURANCE STATUTE.)

PHILOSOPHICALLY, THE INSURANCE BUSINESS DESIRED TO SUPPORT THE PASSAGE OF THESE COMPULSORY LIABILITY/NO FAULT LAWS ONLY IN JURISDICTIONS WHICH HAD SOME FORM OF FILE AND USE (COMPETITIVE RATE REGULATION LAW.) TODAY COMPETITIVE RATING EXISTS IN SLIGHTLY LESS THAN ONE HALF OF THE JURISDICTIONS WHICH ALSO HAVE COMPULSORY LIABILITY INSURANCE STATUTES. IT IS MY OPINION THAT COMPULSORY LIABILITY INSURANCE IS MOST SUCCESSFUL IN THE INTEREST OF MOST CONSUMERS AND THE TORT LAW SYSTEM IN THOSE JURISDICTIONS WHICH HAVE COMPETITIVE RATING LAWS. TENNESSEE DOES NOT HAVE A COMPETITIVE RATING LAW.

THE ENACTMENT OF COMPULSORY LIABILITY INSURANCE STATUTES (OR THE COMPULSORY LIABILITY/NO FAULT STATUTE) WAS, IN MY OPINION, NOT IN THE BEST INTEREST OF THE CONSUMER NOR SUPPORTIVE OF TODAY'S CONCEPTS OF SOCIAL/REGULATORY PHILOSOPHY, AND IT CERTAINLY HAS BEEN A DISASTER FROM THE VIEWPOINT OF THE INSURANCE BUSINESS. IT IS VERY LIKELY THAT THE CONTINUATION OF THE COMPULSORY LIABILITY INSURANCE SYSTEM WILL HAVE GRAVE LONG RUN REPERCUSSIONS FOR THE VIABILITY OF THE TORT LAW/LIABILITY INSURANCE SYSTEM.

COMPULSORY LIABILITY INSURANCE WAS ADOPTED ON THE THEORY THAT PERSONS WHO DRIVE AUTOMOBILES SHOULD FUND, AT LEAST AT A MINIMUM LEVEL, THEIR POTENTIAL LEGAL RESPONSIBILITIES GROWING OUT OF THE USE OF THOSE AUTOMOBILES. DRIVING HAS LONG BEEN CONSIDERED A PRIVILEGE, AND THE PERSON WHO IS LEGALLY RESPONSIBLE SHOULD ALSO BE FINANCIALLY RESPONSIBLE FOR HIS WRONGS. DURING THE EARLY YEARS, INDEED UNTIL WELL AFTER WORLD WAR II, THE AUTOMOBILE WAS NOT A NECESSITY FOR TRANSPORTATION. AT THE SAME TIME, WE HAD NOT SEEN THE TORT LAW/MEDICAL CARE/INCOME REPLACEMENT EXPENSE EXPLOSION. DURING THE EARLY YEARS, THE AUTOMOBILE WAS A MUCH EASIER VEHICLE TO REPAIR AND PEOPLE DID NOT DRIVE AS RAPIDLY. THERE WERE FAR FEWER AUTOMOBILES, AND LESS CONGESTION. THERE ARE PEOPLE IN THIS ROOM WHO REMEMBER THAT THERE WAS ONCE A DIFFERENT SOCIAL AND MORAL ETHIC.

TODAY, WHILE DRIVING IS STILL LEGALLY A PRIVILEGE, AS A POLITICAL/PRACTICAL MATTER, IT IS CONSIDERED TO BE A RIGHT. THE AUTOMOBILE IS A NECESSITY FOR TRANSPORTATION AND FOR EARNING A LIVING. THE COSTS OF MEDICAL CARE AND INCOME REPLACEMENT AND AUTOMOBILE REPAIR HAVE SKYROCKETED. THERE IS GREATER INSURANCE CLAIM FRAUD, WITH INADEQUATE ENFORCEMENT MECHANISMS.

I INDICATED THAT I NOW OPPOSE COMPULSORY LIABILITY INSURANCE. LET ME GIVE YOU A SCENARIO OF EVENTS AS THEY HAVE EVOLVED IN SOME OTHER JURISDICTIONS WHICH HAVE GONE THE COMPULSORY ROUTE. IT IS MY STRONG OPINION THAT COMPULSORY LIABILITY INSURANCE INCREASES THE IMPACT OF, OR CAUSES, THE FOLLOWING ADVERSE EFFECTS:

1. INSURANCE RATES FOR ALL DRIVERS RISE TO COMPENSATE FOR THE HIGHER HAZARD CHARACTERISTICS OF THE WHOLE DRIVING POPULATION. WITHOUT COMPULSORY, SOME HIGH HAZARD DRIVERS TEND NOT TO INSURE. UNDER COMPULSORY INSURANCE, HIGH HAZARD DRIVERS PAY HIGHER RATES. BUT LOW HAZARD, RESPONSIBLE DRIVERS ALSO TEND TO PAY HIGHER RATES FOR REASONS TO BE EXPLAINED BELOW.
2. HIGHER RATES, TOGETHER WITH THE FACT THAT MANY PERSONS ARE NOW FORCED TO BUY LIABILITY INSURANCE, TEND TO FORCE GREATER PRESSURE FOR RATE REGULATION AND PRICE CONTROL. IN THOSE JURISDICTIONS WHERE RATES MUST BE APPROVED IN ADVANCE (SUCH AS TENNESSEE), THE RATE REGULATORY PROCESS TENDS TO BECOME HIGHLY POLITICAL. MOST OFTEN, IT IS THE HIGH HAZARD DRIVER, (RICH OR POOR) WHO COMPLAINS THE MOST VOCALLY. FOR THE RELATIVELY POOR, THE COMPULSORY PAYMENT OF LIABILITY INSURANCE PREMIUMS IS A MAJOR BURDEN, EVEN FOR THE LOW HAZARD, LOW PREMIUM DRIVER. THE ECONOMICALLY DISADVANTAGED HIGH HAZARD DRIVER IS FACED WITH PREMIUMS WHICH ARE SO HIGH AS TO VIRTUALLY MAKE IT DIFFICULT FOR HIM TO OWN A CAR. INSURERS AND REGULATORS ARE THUS FACED WITH A DILEMMA. ALTHOUGH INSURANCE PRICES HAVE GONE UP LESS RAPIDLY THAN THE CONSUMER PRICE INDEX, OR THE COST OF SERVICES WHICH INSURANCE PURCHASES, MANY LOW HAZARD, LOW RATED DRIVERS CANNOT AFFORD AUTOMOBILE INSURANCE AT ANY PRICE. EVEN MORE, HIGH HAZARD, HIGH PREMIUM DRIVERS

FIND AUTOMOBILE INSURANCE EXPENSIVE REGARDLESS OF INCOME LEVEL. INSURERS AND REGULATORS ARE IN A POSITION OF MAKING INSURANCE AVAILABLE, BUT OFTEN AT A PRICE WHICH MANY CUSTOMERS DO NOT CONSIDER REASONABLE OR AFFORDABLE. PRIVATE INSURERS (AND REGULATORS) DO NOT FEEL THAT THEY MAY DEPRIVE PERSONS OF THE RIGHT TO DRIVE BECAUSE THEY CANNOT AFFORD INSURANCE.

WHEN AUTOMOBILE INSURANCE RATES BECOME POLITICAL, THERE IS A TENDENCY FOR REGULATORS TO BEND UNDER EXTREME PRESSURE TO INSTITUTE SOME FORM OF RATE SUBSIDY OR INCOME REDISTRIBUTION PLAN.

- A. OVERALL RATE LEVELS ARE DEPRESSED AND UNDERWRITING LOSSES ARE INCURRED. INSURERS TEND TO MAKE UP SUCH LOSSES FROM SURPLUS WHICH DEVELOPS FROM PROFITS ON LESS REGULATED LINES, SUCH AS COMMERCIAL BUSINESS INSURANCE. AS A PRACTICAL MATTER, OTHER LINES OF INSURANCE ARE REQUIRED TO SUBSIDIZE THE UNPROFITABLE LINE.
  
- B. THE VOCALLY COHESIVE HIGH HAZARD, HIGH PREMIUM DRIVERS TEND TO FORCE REGULATORS TO IMPOSE AN INCOME REDISTRIBUTION PLAN WHICH FORCES LOW HAZARD, LOW PREMIUM DRIVERS, WHETHER THEY BE POOR OR RICH, TO PAY MORE THAN THEIR FAIR SHARE OF LOSS COSTS AND EXPENSES (AS DETERMINED IN THE COMPETITIVE MARKETPLACE) SO THAT THE HIGH HAZARD, HIGH PREMIUM DRIVERS (POOR OR RICH) WILL PAY LESS. THESE SUBSIDIES, WHICH ARE RELATED TO DRIVING HAZARD PRIMARILY, ARE USUALLY HIDDEN TEMPORARILY FROM THE LOW HAZARD DRIVER. THEY ARE NOT AWARE OF WHAT HAS BEEN DONE TO THEM. AT ITS WORST, IN STATES SUCH AS SOUTH CAROLINA OR NORTH CAROLINA, 70-80% OF THE DRIVERS ARE EQUAL TO OR BETTER THAN THE AVERAGE

CONTEMPLATED FOR THE RATES IN THEIR CLASSIFICATION OR TERRITORY, AND THEY ARE ASKED TO PAY A SUBSIDY WHICH WILL VARY BY COMPANY AND WHICH FOR SOUTH CAROLINA AT DIFFERENT TIMES MIGHT BE ESTIMATED AT BETWEEN \$30 and \$60 PER CAR TO REWARD THE 20-30% OF THE HIGH HAZARD DRIVERS WHO CREATE APPROXIMATELY 60% OF ALL CLAIMS. THIS DISCRIMINATION AGAINST THE LOWER HAZARD DRIVER (THE MAJORITY OF DRIVERS) WAS NEVER INTENDED BY LEGISLATORS WHEN THEY PASSED COMPULSORY LIABILITY INSURANCE. PERHAPS MOST IMPORTANTLY, THIS PREMIUM LEVELING BETWEEN THE LOW AND HIGH HAZARD DRIVERS WEAKENS THE DETERRENT EFFECTS OF THE TORT LAW SYSTEM.

C. BECAUSE OF THESE RATING PROBLEMS, THE SIZE OF THE SHARED MARKET TENDS TO GROW GREATLY. TENNESSEE NOW HAS ONE OF THE SMALLER SHARED MARKETS IN THE NATION. THERE ARE STATES WHERE 30% OR MORE OF THE PREMIUM VOLUME AND 20-30% OR MORE OF THE AUTOS ARE IN THE SHARED MARKET.

3. COMPULSORY LIABILITY INSURANCE LAWS MANDATE THE PURCHASE OF AN INSURANCE PRODUCT WHICH MANY PEOPLE WOULD RATHER NOT PURCHASE AT ALL, AND WHICH OTHERS CANNOT REALISTICALLY AFFORD IN VIEW OF THEIR PERSONAL FINANCIAL SITUATION. PERSONS WHO VIOLATE THESE LAWS MAY FACE PROSECUTION. NEVERTHELESS, THERE IS SUBSTANTIAL EVIDENCE THAT LAW ENFORCEMENT EFFORTS TYPICALLY FAIL TO ASSURE COMPLIANCE IN STATES WHERE AFFORDABILITY OF INSURANCE IS OF MAJOR CONCERN. THE COST OF ADMINISTERING SUCH A PROGRAM EFFECTIVELY IS GREAT, WITH DISAPPOINTING INCREASES IN THE NUMBER OF DRIVERS INSURED.

THAN SUCCESSFUL, AS PUBLIC AND POLITICAL FRUSTRATION WITH UNSUCCESSFUL EFFORTS TO ENFORCE SUCH LAWS GROWS, THOSE WHO OBEY THE LAW RESENT THE FACT THAT OTHERS DO NOT, FURTHER INCREASING THE RESENTMENT AGAINST INSURERS, THE TORT LAW SYSTEM AND THE LEGISLATURE.

4. ALTHOUGH INSURERS DO NOT LIKE TO ADMIT IT, THE VERY EXISTENCE OF INSURANCE AFFECTS ITS COST, AND THE EXISTENCE OF COMPULSORY INSURANCE, COMBINED WITH ITS HIGH COST, TENDS TO CAUSE FURTHER HIGHER INSURANCE COSTS IN A CUMULATIVE SPIRAL OF RISING INSURANCE UTILIZATION AND COST. FOR SOME REASON, WHERE LIABILITY INSURANCE IS ASSUMED TO EXIST, CLAIM FREQUENCY, CLAIM SEVERITY (AVERAGE CLAIM COST) AND CLAIM FRAUD AGAINST INSURERS ALL TEND TO INCREASE.

5. IN THE FINAL STAGES OF THIS SCENARIO, THE WHOLE TORT LAW/LIABILITY INSURANCE SYSTEM COMES INTO QUESTION. THE PUBLIC DOES NOT UNDERSTAND. AND THEY WILL MAKE COMMENTS OR ASK QUESTIONS SUCH AS THE FOLLOWING:

A. PERSONS WHO POSSESS SIGNIFICANT ASSETS AND INCOME EARNING POTENTIAL HAVE A GREAT NEED FOR LIABILITY INSURANCE AND THEY PURCHASE THE COVERAGE ROUTINELY. THEIR FINANCIAL CONDITION GIVES THEM A GREATER ABILITY TO PURCHASE THIS INSURANCE ALTHOUGH THEY MAY THINK IT EXPENSIVE.

THE ECONOMICALLY DISADVANTAGED HAVE LESS REAL NEED FOR LIABILITY INSURANCE TO PROTECT THEIR OWN INTERESTS, FOR AS A PRACTICAL MATTER THESE PERSONS TEND TO BE JUDGMENT PROOF.

IS EXPENSIVE. ALL INSUREDS (POOR OR RICH) TEND TO BE UNAWARE OF THE BENEFITS WHICH A LIABILITY POLICY PROVIDES. THEY PERCEIVE THE LIABILITY INSURANCE POLICY AS TAKING CARE OF OTHER PEOPLE. THEY FEEL THAT THEY MUST PAY A HIGH PREMIUM FOR INSURANCE WHICH PROVIDES BENEFITS FOR OTHERS AS A CONDITION PRECEDENT TO ENJOYING THE RIGHT TO DRIVE.

THUS IT IS OBSERVED BY THE RELATIVELY WELL TO DO WHO MUST BUY ADEQUATE LIABILITY INSURANCE LIMITS REGARDLESS OF WHETHER OR NOT IT IS COMPULSORY, THAT THEY MUST CARRY RELATIVELY HIGH LIABILITY INSURANCE LIMITS TO TAKE CARE OF OTHERS, WHILE MANY OTHERS BUY ONLY MINIMUM LIMITS TO TAKE CARE OF THEM. UNDERINSURED MOTORIST COVERAGE (A RELATIVELY NEW COVERAGE WHICH ALLOWS EACH INSURED DRIVER TO PURCHASE ADEQUATE INSURANCE LIMITS TO PROTECT THEIR OWN FAMILIES AGAINST THE NEGLIGENCE OF THOSE DRIVERS WITH INADEQUATE COVERAGE) IS NECESSARY, AT AN ADDITIONAL PREMIUM. THE RESPONSIBLE DRIVER, WHO WANTS TO BE SURE THAT THERE IS ADEQUATE COVERAGE FOR HIS OWN FAMILY AGAINST THE NEGLIGENCE OF OTHERS MUST STILL BUY, FOR AN ADDITIONAL PREMIUM, THIS UNDERINSURED MOTORIST COVERAGE - IN A SENSE SUBSIDIZING THOSE DRIVERS WHO MEET ONLY THE MINIMUM REQUIREMENTS OF THE LAW.

AT THE SAME TIME, BECAUSE OF RATE REGULATION, THE RELATIVELY LOW HAZARD, RESPONSIBLE DRIVER (RICH OR POOR) IS PAYING A HIGHER PREMIUM TO SUBSIDIZE THE HIGH HAZARD MORE IRRESPONSIBLE DRIVER (RICH OR POOR) WHO IS MOST LIKELY NOT BUYING ADEQUATE AMOUNTS OF INSURANCE TO TAKE CARE OF THE DAMAGES WHICH HE CAUSES.

CERTAIN RESIDERS OF UNINSURED DRIVERS, AND THE STATE  
WITH THE LAW MUST PURCHASE UNINSURED MOTORIST COVERAGE DESIGNED  
TO PROVIDE PROTECTION FOR THEIR OWN FAMILIES IN THE EVENT THAT  
THEY ARE STRUCK BY A NEGLIGENT UNINSURED MOTORIST OR A HIT AND  
RUN DRIVER. IN A SENSE, INSURED DRIVERS STILL ARE ASKED TO  
SUBSIDIZE UNINSURED DRIVERS. (AS INDICATED PREVIOUSLY, DRIVERS  
WILL ALSO HAVE A NEED FOR UNDERINSURED MOTORIST COVERAGE).

- C. ALL DRIVERS WHO COMPLY WITH THE LAW (POOR OR RICH) BEGIN TO ASK  
"WHY SHOULD I PAY EXPENSIVE LIABILITY INSURANCE PREMIUMS FOR THE  
PROTECTION OF OTHERS IN ADDITION TO PREMIUMS FOR UNDERINSURED AND  
UNINSURED MOTORIST COVERAGES FOR MY OWN PROTECTION?" THEY ASK:  
"WHY MUST I SUBSIDIZE HIGH HAZARD DRIVERS, WHEN I CANNOT AFFORD  
ADEQUATE COVERAGE FOR INCOME LOSS AND MEDICAL CARE EXPENSES FOR  
MY OWN FAMILY MEMBERS WHO ARE INVOLVED IN AN AUTOMOBILE ACCIDENT  
WHERE THEY ARE AT FAULT, OR WHERE THEY ARE INJURED OR ILL FOR ANY  
REASON?" FEW PEOPLE CAN AFFORD ADEQUATE LIFE AND DISABILITY AND  
MEDICAL CARE EXPENSE INSURANCE AND THEY TEND TO ASK THEMSELVES  
"WHY SHOULD I BUY LIABILITY INSURANCE TO PROTECT OTHERS, WITH ALL  
ITS INEQUITIES IN PRICING AND LAW ENFORCEMENT, WHEN I WOULD  
RATHER SPEND THE SAME PREMIUM FOR A BENEFIT SYSTEM WHICH WOULD  
PROVIDE PROTECTION DIRECTLY FOR MY FAMILY REGARDLESS OF FAULT?"  
IN THE LONG RUN, WHILE I AM OPPOSED TO COMPULSORY INSURANCE OF  
ANY TYPE, IT IS IMPORTANT TO RECOGNIZE THAT THE PUBLIC WILL  
EVENTUALLY ASK, IF AUTOMOBILE INSURANCE IS TO BE COMPULSORY, "WHY  
SHOULD I BE REQUIRED TO CARRY ANY INSURANCE WHICH PROVIDES

SAYING THAT "IF ANY BENEFIT SYSTEM IS TO BE COMPULSORY, IT SHOULD BE NO FAULT INSURANCE WHICH PROVIDES STRONG ECONOMIC BENEFITS DIRECTLY TO, AND FOR THE BENEFIT OF, THE PERSON WHO PAYS THE PREMIUM, HELPS TO BUILD THE SELF RESPECT OF THE ECONOMICALLY DISADVANTAGED AND REDUCES THE COST OF CHARITY CARE." THIS WAS THE CONCLUSION THAT WAS REACHED IN FLORIDA. IN THE LONG RUN COMPULSORY LIABILITY INSURANCE CAN ONLY LEAD TO PRESSURE FOR NO FAULT INSURANCE.

REMEMBER, COMPULSORY LIABILITY INSURANCE DOES NOT COMPENSATE THE INJURIES OF THE "AT FAULT" DRIVER. IF THESE PERSONS ARE POOR, THEY MUST DEPEND UPON CHARITY.

6. FINALLY, COMPULSORY LIABILITY INSURANCE LEADS TO GREATER, NOT LESS, REGULATION AND CONTROL, AT GREAT EXPENSE, AT A TIME WHEN THE PUBLIC IS SEEKING LESS GOVERNMENT INVOLVEMENT. THE COMPULSORY LIABILITY INSURANCE LAW MUST BE ENFORCED.

COMPULSORY INSURANCE LAWS REQUIRE THAT DRIVERS MUST HAVE INSURANCE. THEY DO NOT ATTEMPT TO DEFINE HAZARDOUS DRIVERS. THEY PROVIDE NO MEANS FOR GOVERNMENT TO REMOVE HIGH HAZARD DRIVERS FROM THE ROAD, FOR THE BENEFIT OF ALL. INSTEAD, THE GOVERNMENT ASKS PRIVATE INDUSTRY TO DEVELOP AND ENFORCE PUBLIC POLICY - A ROLE WHICH PRIVATE INDUSTRY CANNOT PERFORM. ONLY GOVERNMENT CAN PERFORM THIS FUNCTION.

THE BUSINESS IS CAST IN THE ROLE OF "SURROGATE REGULATOR." IT IS EXPECTED TO PROVIDE COVERAGE TO DRIVERS, AND TO POLICE DRIVERS AS WELL, DETERMINING WHO SHOULD PAY HIGH AND LOW PREMIUMS AND WHO WILL BE ABLE TO BUY COVERAGE. IF THE BUSINESS WERE ALLOWED TO PERFORM THIS FUNCTION FREELY, MOST CONSUMERS WOULD BENEFIT FROM IMPROVED SAFETY AND MORE EQUITABLE PRICES. HOWEVER, THE GOVERNMENT, IN RESPONSE TO THE COMPLAINTS OF RELATIVELY FEW HIGH HAZARD DRIVERS, TENDS TO FORCE THE GREAT MAJORITY OF DRIVERS - THE LOW HAZARD DRIVERS, TO PAY MUCH MORE SO THAT HIGH HAZARD DRIVERS PAY LESS. AT GREAT REGULATORY EXPENSE AND INTERFERENCE, GOVERNMENT REGULATION TENDS TO REWARD THE HIGH HAZARD DRIVER.

IN SUMMARY, AS I STATED AT THE BEGINNING, I AM OPPOSED TO COMPULSORY LIABILITY INSURANCE AS NOT BEING IN THE BEST INTEREST OF THE CONSUMER, THE TORT LAW/LIABILITY INSURANCE SYSTEM AND THE BAR, LEGISLATORS AND REGULATORS.

IT IS MY OPINION, BASED UPON EXPERIENCES IN SOME OTHER STATES AS DESCRIBED IN THIS SCENARIO, THAT LOW HAZARD DRIVERS WILL EVENTUALLY PAY MORE UNDER COMPULSORY LIABILITY THAN UNDER THE PRESENT SYSTEM, PERHAPS SUBSTANTIALLY MORE.

IN MY OPINION, MOST DRIVERS WOULD BE BETTER OFF FINANCIALLY UNDER THE PRESENT SYSTEM, WITH THE OPTION TO PURCHASE UNINSURED AND UNDERSINSURED MOTORIST COVERAGES EQUAL TO THEIR OWN POLICY LIMITS, FOR ADDITIONAL PREMIUMS. IT IS MY OPINION THAT THE ADDITIONAL PREMIUMS FOR THESE OPTIONS WILL BE LESS THAN THE ADDED COST OF LIABILITY INSURANCE WHERE IT IS COMPULSORY. AND REMEMBER, UNINSURED AND UNDERINSURED MOTORIST COVERAGES

ARE PURCHASED TO PROVIDE COVERAGE DIRECTLY FOR THE BENEFIT OF THE PREMIUM  
PAYOR AND HIS FAMILY.

MEMBERS OF THE COMMITTEE - IT IS EASY FOR ME TO COME HERE, AND TO MAKE  
SUGGESTIONS.

YOU HAVE TO MAKE HARD DECISIONS AND THESE ARE HARD DECISIONS, ANY CHANGE  
TO COMPULSORY IS NEARLY IRREVERSIBLE.

THANK YOU. I WOULD BE HAPPY TO RESPOND TO QUESTIONS OR COMMENTS.

STATEMENT IN OPPOSITION TO  
THE ENACTMENT OF A COMPULSORY AUTOMOBILE LIABILITY  
INSURANCE STATUTE IN ILLINOIS

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY

MARCH 22, 1983

Members of the Committee, I am John Bernstein, Associate Counsel of State Farm Mutual Automobile Insurance Company of Bloomington, Illinois.

State Farm, like most national insurers, has had a long and generally negative experience operating in states having compulsory automobile liability laws. It is our firm belief that such laws aren't needed; create more problems than they solve; don't benefit our policyholders or the general public; don't help the less fortunate; don't increase our business for any sustained period; but do increase our costs and, eventually, our premiums; have grave long-run repercussions on our legal system; and in the last analysis, don't work.

Illinois doesn't need a compulsory law.

If the object of compulsory insurance is to assure the motoring public that the individual legally responsible for loss is also financially responsible, that is also the goal of our current Safety Responsibility Law. All evidence is that the current law is working.

State Farm data indicates that in 40 years of driving there is only a 4% chance of an insured motorist being injured by an uninsured motorist. To put it another way, the average State Farm driver will wait 909 years between uninsured motorist claims. State Farm is in the process of developing a measurement of the effect of the uninsured motorist population on insured motorists in a given state. We call this our UM:BI Index. It's a ratio of uninsured motorists claims to bodily injury claims. If our data is correct, it shows that in Illinois there appears to be even less chance of loss caused by an uninsured driver than the national average. (11.8% v. 15.5%, UM:BI Index).

We submit that whether there is a large percentage of uninsured drivers on the road or a small percentage, is largely irrelevant--the question that the legislature must address is the extent to which not-at-fault motorists in Illinois sustain losses which are uncompensated--and, to

what extent losses caused by uninsured motorists might be reduced by adoption of a compulsory liability insurance system.

Would uncompensated injuries be reduced by enactment of a compulsory law? State Farm's experience is that the answer is "no". Our data from the compulsory states indicates that, on average, insured car occupants receive injuries from uninsured motorists at about the same rate after enactment of compulsory legislation as prior to passage of such laws. Compulsory legislation may increase the insured population by a small percentage, but we find no measurable reduction in the number of bodily injuries caused by financially irresponsible drivers.

Compulsory liability laws lead to higher insurance rates and increased governmental costs.

As we have said, when all compulsory laws are considered together, we have seen no reduction of uninsured motorists claims. Our policyholders still have to buy such coverages, and they inevitably experience higher premiums for the balance of their insurance. Why do premiums go up? Compulsory laws exert an upward pressure on insurance company expenses. Insurance company paper-work increases and we must engage in exacting verification procedures. In New

York, for example, enforcement of the compulsory law has cost insurers approximately \$8 million per year. Further, it is estimated that New York's new computerized approach to verification of insurance will cost at least \$12 million in 1983. Some years ago the 79th General Assembly enacted a compulsory law. This was HB 1317. It was vetoed by the Governor after the then Secretary of State estimated the implementation and enforcement costs to the State of Illinois at \$13,025,000.

Compulsory liability insurance has serious adverse social and legal implications.

We would like to quote from the testimony of Dr. John Hall, of Georgia State University, given in December, 1979, to South Carolina's Joint Legislative Automobile Liability Insurance Study Committee.

Dr. Hall said:

As a practical matter, the economically disadvantaged have less real need for liability insurance to protect their own interests. As a practical matter, these persons tend to be judgment proof. In any event, they tend to be unaware of the benefits which a liability policy provides. They perceive the liability

insurance policy as taking care of other people. They must pay a high premium for insurance which provides benefits for others as a condition precedent to having the right to drive. Because of their economic status, most often they are unable to purchase insurance to provide for their own injuries, and those of their families, in accidents where they are at fault. The compulsory liability insurance system forces these people to pay high premiums relative to their income for benefits for others when they cannot themselves afford adequate benefits to cover their own losses.

Dr. Hall concludes:

For these reasons, it appears morally and socially wrong to require liability insurance on a compulsory basis as a condition precedent to enjoying the privilege of automobile driving and ownership.

In this period of serious economic uncertainty, the words of Dr. Hall seem to be most appropriate. It seems to us that 1983 is a particularly bad time to enact a compulsory insurance law in Illinois.

Compulsory liability laws don't work.

The Tennessee legislature has reviewed other jurisdictions' experience with compulsory auto insurance. On November 19, 1981, a subcommittee recommended that, "Tennessee not adopt any form of compulsory insurance." In its report, the first page of which is attached to our statement today, the subcommittee says:

Our findings reveal that despite considerable and varied enforcement efforts in other states including the adoption of no-fault, no state has devised a workable or cost-effective enforcement system. . . .

And the subcommittee report says also:

The responsible motorist should not pay more for insurance coverage nor be subjected to harrassment in a futile attempt to enforce a compulsory law.

A similar conclusion was reached by the State Auditor of Wisconsin on March 10, 1981. In the letter transmitting his report (copy attached), he said:

Experience in other states indicates that mandatory insurance programs do not substantially reduce the number of uninsured motorists and the cost of administering such a program is more than double the cost of the Safety Responsibility Program.

On the other hand, the State of West Virginia enacted a compulsory liability insurance law in 1981 without holding public hearing. One year later, on February 2, 1982, a joint House/Senate hearing was held in West Virginia to consider experience under the new law. At that hearing the Commissioner of Motor Vehicles testified that 95% of the notices of insurance termination sent in connection with enforcement of the law went to people who had not, in fact, let their coverage lapse. She said that she had had to add a night shift to process the additional work which already generated 196,000 termination notices in the State of West Virginia in the few months that the law had been in effect. A leading advocate of compulsory in the previous legislative session said that it, "was the biggest mistake I've made since I have been in the House of Delegates . . ." Another Delegate said, "I don't remember anything this legislature has ever passed that upset the citizens of this state as

much as this law has." We have attached copies of the newspaper reports of the hearing at the back of this statement which verify the above quotations.

Arizona is one of the most recent states to enact a compulsory automobile insurance liability law. The effective date of this legislation is January 1, 1983.

A better example of the bureaucratic problems created by compulsory insurance could scarcely be found. As reported by the press in Arizona, copies of which are also attached to this statement, the Chief Deputy Auto License Director for Maricopa County (Phoenix) says he has found the compulsory forms required have caused "a mess", and he predicts delays in registration and penalty charges to the public will result. The head of the Arizona Prosecuting Attorneys Advisory Council expands on these remarks and uses a few more expletives, saying, the bill is "ridiculous" and "a hell-of-a-mess". Government officials in Arizona expect that the new law will result in clogged court calendars and predict, "an administrative nightmare".

It is rarely safe to generalize about any subject. Compulsory automobile liability insurance legislation is no exception. Insurers, however, are well-aware that only a few states

have made the decision to allocate tax dollars and governmental personnel to attempt to achieve a reasonably high degree of compliance with their compulsory laws. But regardless of the resources allocated, most states have failed anyway. Massachusetts, the first compulsory state (1927), is estimated to have between 10% to 15% of its driving population uninsured. New York, the second compulsory state (1957), is presently estimated to have an uninsured motorist population of at least one half million drivers. This is probably close to the uninsured populations in New York and Massachusetts prior to the passage of their compulsory laws; and, if we may speculate, probably is what it would have been had no such laws been enacted.

In the final analysis, what is necessary is to carefully balance public interest and equities. State Farm urges this committee to review the more practical alternatives to passage of what would almost certainly be another ineffective and expensive compulsory experiment. For example, this committee would be well-advised to study the system in effect since 1958 in the Commonwealth of Virginia. Estimates based on uninsured motorist insurance losses in Virginia indicate that the percentage of uninsured motorists in the Commonwealth is less than in many compulsory liability states.

In fact, only two states with compulsory laws (North Carolina and Utah) and two non-compulsory states (Iowa and New Hampshire) appear to have measurably fewer uninsured motorists. In addition, the Virginia law requires minimum paperwork on the part of government and insurers; is relatively inexpensive to operate; and, from the standpoint of the government, may actually be a revenue producer. Finally, since the individual isn't required to buy insurance, the Virginia law avoids the political, legal, economic, and social problems which compulsory insurance legislation invariably creates.

In closing we would like to emphasize the obvious: What burdens government and burdens insurers eventually burdens the general public. We urge this committee, before recommending any particular approach to compulsory, to examine the cost and effectiveness of compulsory automobile insurance legislation in the other states. If this committee engages in this activity, we believe it unlikely that it will recommend that the legislature of Illinois enact a compulsory automobile liability insurance law.

JTB/mm



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 JOE L. CROCKETT  
 EDWARD DAVIS  
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 STAFF ANALYST  
 TODD O. MAIDEN

MEMORANDUM

TO: Commerce, Labor and Agriculture Committee  
 FROM: Subcommittee Studying Automobile Compulsory Insurance Laws  
 DATE: November 19, 1981

The Subcommittee appointed to study compulsory insurance legislation has completed its work and submits the following:

COMPULSORY INSURANCE:

The Subcommittee reviewed and studied this concept in depth. We visited the state of Georgia, West Virginia and Pennsylvania to obtain first-hand information on the workings and effectiveness of their compulsory program. During a day-long public hearing on September 23, 1981, we heard testimony from a variety of concerns and interests on the subject.

Based upon information obtained from these and other sources, it is the recommendation of this committee that Tennessee not adopt any form of compulsory insurance. (Senator Crockett and Senator Bill Jim Davis voting for this recommendation, with Senator Ed Davis abstaining. An explanation of his position is attached to this report.)

Comments on Recommendation:

This subcommittee supports the concept of compulsory insurance. Every motorist should purchase sufficient liability insurance coverage to pay for any negligent act they may commit while using our streets and highways. Yet, our findings reveal that despite considerable and varied enforcement efforts in other states including the adoption of no-fault, no state has devised a workable or cost effective enforcement system. In addition, experience in other states indicate the adoption of compulsory insurance in Tennessee would only increase the percentage of insured drivers from the current 80 percent to 85 percent. More importantly, the cost of liability insurance plus uninsured motorist coverage in Tennessee is less than same coverage in any compulsory state, and considerably less than the same coverage in any compulsory no-fault state. The responsible motorist should not pay more for insurance coverage nor be subjected to harassment in a futile effort to enforce a compulsory insurance law.



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU .

DALE CATTANACH  
STATE AUDITOR  
SUITE 507  
131 WEST WILSON STREET  
MADISON, WISCONSIN 53703  
(608) 255-2818

March 10, 1981

Senator Gary George and  
Representative Phillip Tuczynski, Co-Chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin

Dear Senator George and Representative Tuczynski:

We have completed our evaluation of the Safety Responsibility Program in the Department of Transportation which is designed to encourage uninsured motorists involved in accidents to settle damage claims.

We examined several alternatives to the current Safety Responsibility Program, including mandatory insurance and eliminating the Program. Experience in other states indicates that mandatory insurance programs do not substantially reduce the number of uninsured motorists and the cost of administering such a program is more than double the cost of the Safety Responsibility Program. Elimination of the Safety Responsibility Program would remove state leverage that encourages out-of-court settlements for accidents involving uninsured motorists. Therefore, we have recommended that the existing Safety Responsibility Program be continued. However, we have recommended several program improvements which should increase the number of out-of-court settlements and provide injured parties with better access to deposits collected by DOT from uninsured motorists. These recommendations do not require legislative action.

We appreciate the courtesy and cooperation extended to us by the Department of Transportation and the Transportation Commission.

Respectfully submitted,  
LEGISLATIVE AUDIT BUREAU

By *Dale Cattanach*  
Dale Cattanach  
State Auditor

DC/jla

## Warnings are sent to 196,000 car owners in state insurance foulup

CHARLESTON, W.Va. (AP) — Motor Vehicles Commissioner Virginia Roberts said Wednesday that her office has been forced to mail 196,000 warnings to drivers that their insurance is about to expire, and that almost all of the warnings were wrong.

Mrs. Roberts was one of several witnesses who pleaded with the House of Delegates' Banking and Insurance Committee to work for changes in the state's compulsory insurance law. Her appeal during a public hearing Wednesday was supported by three state legislators and a host of other witnesses.

The law, passed last year, requires motorists to submit proof of liability insurance before they can register their cars. Mrs. Roberts said she supports the law in principle, but that it has been a nightmare to administer.

Under the law, insurance companies are required to provide motorists with a card certifying that they are insured. The cards then must be presented to the Motor Vehicles Department.

Mrs. Roberts said her depart-

ment has been snowed under by paperwork, and that her office now looks like "the biggest ant hill in Charleston."

One of the biggest problems, she said, is a requirement that her office mail notices to people whose insurance is about to expire. She said that since October, when the law took effect, the DMV has mailed 196,000 notices but "95 percent were to people who never had their insurance terminated, but paid late."

In addition, Mrs. Roberts said, state police have been asked to confiscate 2,584 driver's licenses from people who, according to DMV records, have failed to renew their insurance. But once again, 95 percent of those policies probably have been brought up to date, she said.

When a notice is sent to a motorist "it probably crosses in the mail with the premium check," she said.

The additional paper work heaped on the DMV has forced the agency to seek more office space, which will cost \$94,000 a year to rent, she said.

Two delegates who favor

changing or repealing the law are Marion Shillet, D-Monroe, and George Farley, D-Wood. Both are insurance agents and both said they voted against the law last year.

Farley said the confusion brought about by the law has driven many of his 2,500 clients "bananas."

Del. William Carmichael, R-Jackson, confessed that he voted for the law last year but called that decision "the biggest mistake I've made since I've been in the House of Delegates for eight years."

Carmichael told committee members if there's a way of "doctoring up the problems we've heard about ... then I hope you take a crack at that."

If it's not possible to clean up the statute, Carmichael said, the Legislature "should just back up and let's repeal that law."

Committee Chairman C.E. "Kim" Martin, D-Berkeley, said the committee did not have a bill before it to revise the law. But he said one could be written up on the basis of testimony at Wednesday's hearing.

# Roberts Offers Car Insurance 'Anthill' Tour

By NANYA GADD  
Of the Capitol Bureau

Motor Vehicles Commissioner Virginia Roberts today invited legislators to walk across the street and see "the biggest anthill in West Virginia."

Mrs. Roberts testified at a House hearing on problems with the state's new compulsory auto insurance law. Passed last year, the law has resulted in a mountain of paperwork for her agency and unnecessary hassle for many of the state's premium-paying citizens, she said.

Since the law became effective Oct. 1, the Department of Motor Vehicles has mailed out 198,000 notices of auto license cancellation, she said. She estimated that 95 percent of those notices have gone to persons who had never let their insurance policies lapse.

She has had to add a night shift of 27 workers to her staff to handle the extra load, Mrs. Roberts said. Because she doesn't have room in the DMV building across the street from the Capitol to file all the correspondence generated by the law, she will have to rent more office space at a cost of \$94,000 a year, she said.

Several lawmakers also testified at the hearing. Del. William Carmichael,

D. Putnam, said voting for compulsory insurance last year "was the biggest mistake I've made since I've been in the House of Delegates for eight years."

Flaws in the new procedure are too serious to be corrected, Carmichael said. "The finest thing this session can do is back up and undo what we did last year." He suggested that the law be repealed.

Some insurance industry spokesmen also called for repeal, but Mrs. Roberts and other speakers said the theory behind the law was good. They suggested several revisions in the way it is being carried out.

Insurance companies now must notify DMV when policies are about to expire. DMV, in turn, must mail those persons notices of license cancellation. The DMV notices and owners' premium payments "are probably crossing each other in the mail," Mrs. Roberts said.

But once a notice goes out, the car owner must submit a certificate of insurance to DMV. Many persons who already have paid their premiums simply disregard the notice, Mrs. Roberts said.

If that happens, DMV issues a license pick-up order to be executed by the state police. More than 2,500 such orders have been issued, she said. She be-

lieves most of them involve "good, God-fearing people who have insurance on their cars."

She asked the House Banking and Insurance Committee to eliminate the provision that requires submission of a formal certificate. Vehicle owners simply should be required to sign a statement saying they have insurance when they renew their licenses each year, she said. They also should be required to keep proof of insurance in their vehicles to show policemen if they are stopped on the highways.

Del. Marlon Shiflet, D-Monroe, who is in the insurance business, suggested similar revisions. But he said his plan was so simple it probably wouldn't work.

Del. Gerge Farley, D-Wood, also an insurance agent, said, "I don't remember anything this Legislature has ever passed that has upset the citizens of this state as much as this law has."

Support for compulsory insurance has dropped among his constituents, Farley said. And as for his customers, he said, "I've been close to fist fights at

times. My only out is to tell them I didn't vote for it. People are upset out there."

John Bernstein, a spokesman for State Farm Insurance Co., described West Virginia's new law as "the archetypal example of how not to have a compulsory insurance system." But he said no state that has passed such a law has been successful in reducing the number of uninsured motorists on the road.

Although Bernstein wants to see West Virginia's law revised, he said compulsory insurance "doesn't work in any form."

House Insurance Chairman Clarence Martin, D-Berkeley, said he will wait for the Senate to begin action on bills concerning compulsory insurance since that body originated last year's bill and "put us in the mess we're in."

But Martin said if the Senate takes no action within three weeks, his committee will take up the issue. He'll put all bills that have been introduced on the agenda, he said, "including repeal legislation."

STATEMENT

# New law on car insurance 'nightmare' to prosecutors

By Carol Sowers  
Republic Staff

Although it won't go into effect until Jan. 1, the state's mandatory car-insurance law already is being described as "ridiculous" and an "administrative nightmare" by some prosecutors who will have to enforce it.

"The bill is a hell of a mess," said Al Heinze, executive director of the Arizona Prosecuting Attorneys Advisory Council, a lobbying group.

Heinze and R. William Call, Tucson's city prosecutor, said they hope to seek revisions to the complex law,

which imposes stiff fines on driver-convicted of not having insurance.

They and other prosecutors are at odds over interpretation of the law with state Rep. Bill English, R-Sierra Vista, who wrote the bill approved by legislators earlier this year.

English acknowledged there are "mechanical problems" with the law but he discounted many of the prosecutors' complaints.

"They (prosecutors) want everything on a silver platter," he said. "They want us to do their work for them."

— Insurance.

Plea bargaining will not be allowed. People who plead innocent to being uninsured but cannot produce proof of insurance must face trial.

How soon that trial must be held is unclear.

Call, Heinze and Kerry Wangberg, staff attorney for Phoenix Municipal Courts agreed that the law requires trials to be held within 10 days after a plea is entered.

English disagrees.

He said the law requires trials to be scheduled — not necessarily conducted — within that time limit.

"If that's what he (English) wanted to say, he didn't say it," Call said.

Prosecutors said they are gearing up to hold trials within the 10-day limit.

"You can imagine the headache that will cause in bringing these matters to trial within 10 days, because you have to subpoena witnesses," Wangberg said.

Heinze said prosecutors also are concerned about being forced to prove that a motorist does not have insurance.

"It is very difficult to prove a negative," Heinze said. "We will have to subpoena every company licensed to sell auto insurance in the state."

English is unsympathetic.

"That's tough," he said. "It is the government's responsibility to prove its case."

J. Michael Low, director of the state insurance department, said 40 companies write 92 percent of the auto insurance sold in the state and that another 150 sell the remainder.

Aware of the prosecutors' concerns, Low said, auto insurers may be asked to provide a form that could be accepted by the court as proof of insurance. If a defendant does not have an up-to-date form on file with an insurer, it could be assumed he is not covered, Low said.

"Prosecutors should not panic," he said.

A provision in the law which appears to allow judges to issue complaints against defendants who cannot provide proof of insurance also has been criticized by prosecutors.

Heinze said judges do not issue complaints in any other criminal matters because it could place them in conflict if they were to hear the case when it came to trial.

English said he understands prosecutors' difficulty with that portion of the bill but said it is a "mechanical" problem and may be rewritten.

However, he said, as the law now

## Insurance

Continued from A1

Under the law, motorists are required to carry minimum liability coverage of \$15,000 bodily injury for each individual in an accident, \$30,000 bodily injury for two or more people in an accident, and \$10,000 for property damage.

Motorists who do not buy insurance will be allowed to file a \$40,000 bond with the state Motor Vehicle Division.

Prosecutors critical of the legislation maintain that it:

- Is unclear as to when trials must be held.
- Places prosecutors in the legally precarious position of trying to prove that motorists do not have insurance.
- Includes a legally questionable provision that allows judges to issue complaints against allegedly uninsured motorists.
- Could add thousands of cases to municipal court calendars.
- Forces cities to become repositories of confiscated driver's licenses, thus creating a new layer of bureaucracy.
- Requires out-of-state drivers to remain in Arizona for five days before they can retrieve their driver's licenses.

Heinze said he is "embarrassed" about the law because of the problems.

"I just flat missed this," he said. "I don't know what happened."

English says the bill "slipped by" no one.

"That is pure, unmitigated baloney. That's why public hearings were held," he said.

The law, introduced in various forms in the Legislature for three years before finally making it this year, requires a vehicle owner to sign a statement affirming he has insurance before he can get his vehicle registered with the state.

About 200,000 of the 2.4 million vehicles in the state must be re-registered each month.

Under current law, motorists must prove they have insurance only at the time of an accident. Failure to have insurance or other proof of financial responsibility could result in a year-and-a-day revocation of a driver's license.

Under the new law, a motorist ticketed for an accident that results in \$500 damage, injury or death must surrender his driver's license to the police officer at the scene.

He cannot retrieve his license for at least six days and until he appears in court and shows proof of insurance, according to the law.

In the meantime, however, he can continue to drive because a copy of the traffic ticket serves as a temporary

Drivers convicted of not having insurance can be fined \$250 for the first offense; \$500 and a three-month license suspension for the second offense; and \$750, a six-month license suspension, and a five-day jail term for the third offense.

Sunday, December 19, 1982

## Insurance

Continued from A4

stands, judges can order prosecutors to issue complaints.

Call and other prosecutors disagree. "Judges don't have the power to order prosecutors to issue complaints," Call said.

Wangberg said the caseload spawned by the new law is expected to clog court calendars and require cities to become repositories for confiscated driver's licenses.

He said 29,000 traffic accidents that resulted in \$500 damage or injury occurred in Phoenix alone last year. And next year, there could be more, he warned.

Phoenix Municipal Court officials have asked the City Council to hire two clerks at a cost of \$15,000 for the first half of 1983, according to Jack Tevlin, the council's administrative assistant.

The clerks must match licenses with citations and return them to motorists when they prove they have insurance, Wangberg said.

"You can see what an administrative nightmare that will be," he said.

About a third of motorists cited for traffic accidents are expected to be uninsured and may face trial, thus creating a new set of offenders to be threaded through the court system, he added.

Tevlin said that if a new municipal-

city \$50,000 for the first half year.

English maintained that the cost to the city should be offset by the fines levied against uninsured motorists.

Tevlin, however, said city officials cannot be sure if the fines will cover the costs.

The provision requiring enforcement officers to confiscate driver's licenses and force motorists through the court system is "foul," Call said.

Instead, he said, officers should write the citation at the scene for a person who could not prove he was insured. The citation then could be dismissed by the court if the motorist later could prove to the prosecutor that he was insured.

Call said he agrees with the intent of the law.

"It just needs to be cleaned up," he said.

The fate of out-of-state drivers is unclear in the law, Heinze said.

He said that as it is written, the law requires out-of-state drivers to remain in the state until they can appear in court and prove they have insurance.

But English said he believes judges can allow them to mail in insurance to the court, even if that provision is not written in the law.

"I don't want to create any more problems," English said. "I want to do what God wants us to do."

AN ACT to amend Section 3-405 of "The Illinois Vehicle Code", approved September 29, 1969, as amended.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 1. Section 3-405 of "The Illinois Vehicle Code", approved September 29, 1969, as amended, is amended to read as follows:

(Ch. 95 1/2, par. 3-405)

Sec. 3-405. Application for registration. (a) Every owner of a vehicle subject to registration hereunder shall make application to the Secretary of State for the registration of such vehicle upon the appropriate form or forms furnished by the Secretary of State for the registration of such vehicle and every such application shall bear the signature of the owner written with pen and ink and the application shall contain:

1. The name, bona fide residence and mail address of the owner or business address of the owner if a firm, association or corporation;
2. A description of the vehicle including such information as is required in an application for a certificate of title, and including the motor power stated in figures of horse power, determined under such standard rating as may be prescribed by the Secretary.
3. For all vehicles of the first division, registered under Section 3-806 of this Act, excluding any vehicle required to be insured under any other Section of this Act, a certification signed by the applicant, which shall state that the owner is in compliance with the Illinois Safety Responsibility Law and will remain so during the period of registration, or in the event that the applicant cannot so certify, such person shall pay, in addition to any other fees prescribed by law, a non-compliance fee of two hundred (\$200.00) dollars as a condition precedent to registering a vehicle.
34. Such further information as may reasonably be required by the Secretary of State to enable him to determine whether the vehicle is lawfully entitled to a certificate of title.

45. An affirmation by the applicant that all information set forth is true and correct.

(b) When such application refers to a new vehicle purchased from a dealer the application shall be accompanied by a Manufacturer's Statement of Origin from the dealer, and a statement showing any lien retained by the dealer.

(c) The Secretary of State shall issue a certificate of receipt to those applicants paying the prescribed non-compliance fee. The certificate of receipt shall contain a control number; clearly state on its face that such receipt is not insurance; that such receipt must be carried in the vehicle at all times; and, that in the event of an accident wherein injury or damage is caused by the applicant, the applicant remains subject to the provisions of the Illinois Safety Responsibility Law.

(d) When it shall appear to the Secretary of State that a vehicle subject to registration in this state is involved in any reportable accident as provided in Section 11-406 of this Chapter with respect to which the owner thereof has not paid the non-compliance fee as prescribed in this Section, the Secretary shall, in addition to enforcing all other provisions of this Chapter, suspend such owners' license, license plates, and registration certificate until the person has paid the non-compliance fee. Notice of the opportunity for hearing shall be included in the order of suspension.

(e) Non-compliance fees paid pursuant to this Section shall be deposited with the Secretary of State, who shall establish and administer a Motor Vehicle Injury Compensation Fund from such deposits for the purpose of compensating natural persons suffering bodily injury, sickness, disease, or death as a direct and proximate result of a motor vehicle accident caused by a person not in compliance with the Illinois Safety Responsibility Law. No compensation shall be awarded from the Fund in an amount in excess of the limits set forth in Section 7-203 of this Chapter. Any award shall be reduced by payments already received from the at-fault party or any amounts which are payable under any policy of liability, uninsured motorist, or worker's compensation

STATEMENT  
PRESENTED BY  
STATE FARM INSURANCE COMPANIES  
TO THE  
LEGISLATIVE STUDY COMMITTEE  
STATE OF TENNESSEE  
Nashville, Tennessee  
Wednesday, September 23, 1981

11-22-81  
Mar 12 2 52 PM '83

My name is Jean C. Hiestand appearing on behalf of State Farm Insurance Companies, Bloomington, Illinois. State Farm is the leading writer of automobile insurance in the United States, as well as in the state of Tennessee. We insure more than 550,000 cars, approximately 19.2 percent of the insured vehicles in this state. With this stake in the Tennessee insurance market and with the opportunity to insure additional vehicles which compulsory insurance might provide, one would think that State Farm and other insurers would enthusiastically support a proposal to make automobile liability insurance coverage mandatory. Similarly, a poll of responsible drivers of the state might be expected to reveal that a majority of consumers support such a system, because "everyone ought to be made to carry insurance."

Nevertheless, the insurance industry does not favor compulsory liability insurance and we doubt that many consumers do, once they understand what is involved. Compulsory insurance laws just don't work very well, despite the expensive price tag they carry. Direct costs to taxpayers and insurance buyers are high. Indirect costs in terms of harm to the insurance marketplace are often so great as to make the system a very destructive one.

I note from the witness list that a variety of viewpoints will be presented. Mr. Sturgeon will, I presume, discuss the cost of enforcement to government and taxpayers. Ms. Clements will no doubt discuss the

specific reasons for insurer opposition, emphasizing the various costs to companies and their policyholders. Dr. Hall speaks as an academician examining the theory behind the proposal. At the same time he will be able to share his insights concerning practical problems identified while serving as a consultant to several states which either had or were considering the adoption of a compulsory system. With your indulgence, I would like to acquaint you with some of the political, economic and social problems which often follow passage of a compulsory auto insurance law. The history of compulsory insurance in this country has shown that the problems spawned by such a system usually extend well beyond the governmental agencies directly involved such as the Insurance Department and the Department of Motor Vehicles. In some compulsory states, the entire fabric of government becomes infected as new problems develop and bureaucratic involvement becomes pervasive.

Though a proposal to require motorists to carry liability insurance seems simple enough in concept, the requirement has, in a number of states, led to demands for additional controls over insurers and their customers, with the ultimate effect being the destruction of most of the benefits derived from the highly competitive automobile insurance market. I am confident that the state of Tennessee is proud of the competitive vigor of its market and covets the continued benefits of competition on behalf of its citizens. Therefore, I believe the experience in states which have experimented with compulsory insurance, and whose citizens have suffered as a result, will be of interest to you.

To begin, we need to be reminded that people - at least American people - don't like to be compelled to do anything, whether they believe it is the government or the insurance industry which is compelling them. This is part of the American tradition, but it leads to interesting, sometimes perverse, consequences. Therefore, compulsion should not be legislated frivolously and if compulsion is undertaken, it should be for a reason very much attuned to the public interest. (Incidentally, though the insurance industry opposes compulsory insurance, we usually get the blame when it is enacted.)

As one example of the tendency of people to react strongly to attempts to compel, I would cite the Illinois motorcycle helmet law. This statute was enacted to compel all riders of motorcycles to wear helmets and was passed in part because the Federal Department of Transportation had listed a helmet law as one of the requirements necessary for states to continue to receive federal highway money. Shortly after passage of the Act, suit was filed to strike it down by the very people it was intended to protect, riders of motorcycles. And, the Illinois Supreme Court did declare the Act unconstitutional. Thus, Illinois motorcyclists may lawfully expose themselves to serious injury or death by choosing not to wear helmets. Regardless of one's viewpoint concerning the attitude of these people, we must recognize that any attempt to compel purchase of automobile liability insurance coverage is greeted similarly by a significant portion of the population. This is particularly true of those with few assets who realize that compulsory liability insurance "protects the other guy" but confers little real benefit on the purchaser.

Compulsory liability insurance focuses public attention on the subject of the compulsion, the liability insurance contract. I do not suggest that automobile insurance should not be subject to general governmental regulation, and to careful scrutiny on specific issues. However, the attention given the automobile insurance industry following passage of compulsory has often resulted in a take over by the state of basic insurance management decisions and the substitution of administrative control for healthy marketplace competition.

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With this constant turmoil there has, inevitably, been further government tinkering, attempts to correct the fundamental problem by treating only the symptoms. Classifications and territories have been changed arbitrarily, imposing subsidies upon some groups of premium payers and in favor of others. And, in order to solve resulting availability problems, the state has instituted a reinsurance facility which requires every company to accept every applicant and permits the pooling of unwanted insureds. The number of insureds put into the reinsurance pool is approximately 40 percent, as contrasted to 3 percent of your drivers in the Tennessee Automobile Insurance Plan. The pool loses substantial amounts of money, since high-risk drivers must be written at the same rates as are all other insureds. A recent Insurance Commissioner of Massachusetts estimated that approximately \$71 was being contributed, per voluntary insured, in order to subsidize the losses of the reinsurance facility. Those responsible for preserving the excellent insurance market here in Tennessee should not even consider risking a situation which might result in the same aberrations as in the Massachusetts market.

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when serious attempts are made to enforce the law and heavy compulsion is exerted. New York determined to make its law work and the results have been spectacularly unsuccessful. It is estimated that, since inception, perhaps \$200 million have been spent attempting to enforce the New York law and no one is yet sure how much of an increase in the percentage of insured vehicles has been achieved. But the problems involve more than dollars spent attempting to force compliance. For the first 15 years insurers were required to notify the New York Bureau of Motor Vehicles whenever coverage had been cancelled. Because of this, every time a policyholder was late in remitting his premium, every time the premium was delayed by the U.S. Mails, or even when the policyholder decided to change companies, the insurance company was required to notify the Department of Motor Vehicles. In the meantime, most of the tardy insureds remitted their premiums or the new company filed a notice of coverage, thus restoring the insured's eligibility. Often the DMV sent a notice to the insured threatening to pick up his plates and this was followed by an irate letter from the insured to the company asking why it was stupid enough to tell the Department that coverage was not in force. In 1973 the notice requirements were dropped but they have now been reinstated. As you can imagine, automobile insurance is not the most loved commercial enterprise doing business in New York; nor, for that matter, is the Department of Motor Vehicles all that popular with the citizenry.

Your neighbor, the state of North Carolina, might be characterized as a southern style Massachusetts. It is difficult to understand why a state like North Carolina would want to emulate Massachusetts and New York but in 1958 North Carolina passed the third compulsory statute in the country. Immediately, the uniform rates, promulgated by the North Carolina Rating

Bureau and approved by the Insurance Department, became subject to political pressure and were, more often than not, set at unrealistically low levels. The Assigned Risk Plan gradually increased in size until it became the largest in the country, percentage wise. Approximately 30 percent of the insured vehicles were in the Assigned Risk Plan at the time that the legislature, out of desperation and under the influence of demagogic attacks on the automobile insurance business, repealed the Assigned Risk Plan and enacted a reinsurance facility law. So, in North Carolina as in Massachusetts, companies must take every applicant and may cede unwanted insureds to the Facility pool. Also as in Massachusetts, artificial changes in the rating plan have been required by the Insurance Commissioner and the legislature, and the result is groups of policyholders subsidizing others, primarily low-risk insureds subsidizing high risk drivers. Another result has been a lawsuit by the Governor, Attorney General and Insurance Commissioner attacking legislation which required the reinsurance facility to recoup its losses by assessment of all policyholders by means of an identifiable surcharge. The surcharges were upheld against such a prestigious attack but the industry continues to struggle with the reinsurance facility plan and the internal subsidies which have become a part of this anti-competitive program.

Michigan is experiencing one of the most unfortunate changes in an insurance marketplace ever seen in this country and this has been a direct result of the compulsory no-fault law in effect there. Trial lawyers attacked the very strong Michigan no-fault law but it was upheld by the state Supreme Court. However, almost as an after-thought and without giving the parties an opportunity to comment or to present briefs on the subject, the court declared that if insurance is compulsory,

due process requires that each purchaser of the coverage must have an opportunity for a hearing and is entitled to certain other procedural safeguards concerning the price he pays for insurance. The response to this unfortunate decision\* was passage of legislation by the Michigan Legislature which has turned a healthy market into one which is in great turmoil. The terms of the statute defy description in any short statement but the primary requirement is a form of "take all comers" as in Massachusetts and North Carolina, plus the loss of rating criteria based on sex and marital status, and a host of "due process" requirements. Though we continue to be convinced that the Michigan Supreme Court should not have taken up the issue, and though we know that the legislative response was much broader and more destructive than necessary, the possibility of similar reaction to compulsory insurance in other states heightens our concerns.

Finally, we have the state of South Carolina. Here again we have a requirement that companies write all applicants at their preferred rate. In addition, the Insurance Commissioner establishes a uniform class plan and certain uniform rating criteria.

A recent editorial appearing in the National Underwriter, the leading insurance weekly trade publication, highlighted the problems of states with compulsory insurance, using North and South Carolina as primary examples. The editorial suggested that problems in these states "show, in graphic detail, how difficult it can be to implement social legislation and still make everybody happy. They also raise a number of important questions about efficacy of such legislation in the field of insurance. These questions go well

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intended for politicians located in Springfield, Illinois, Raleigh, North Carolina and Nashville, Tennessee, just as much as for members of Congress and the national administration. Compulsory insurance, if it is enacted with an intention that it be vigorously enforced, usually brings with it government involvement in every facet of the process of underwriting, selling and servicing automobile insurance. In a few states it has resulted in a total stifling of competition, as well as a substitution of the state bureaucracy for the disciplines of the marketplace and the natural response of insurance company management to those disciplines. The state of Tennessee has a fine record of sensible regulation by its Department of Insurance which has encouraged competition while providing the appropriate oversight of insurer activities necessary to protect consumers from abuse. Your Department of Safety has performed efficiently and effectively, without unnecessary interference in the affairs of your drivers. I cannot imagine representatives of the people of Tennessee developing a serious interest in a system which would require the state to ignore the benefits of reasonable and responsible regulation and inject itself directly into the day-to-day affairs of its insurance industry and the consumers which that industry serves.

Position  
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STATEMENT  
PRESENTED BY  
STATE FARM INSURANCE COMPANIES  
TO THE  
LEGISLATIVE STUDY COMMITTEE  
STATE OF TENNESSEE  
Nashville, Tennessee  
Wednesday, September 23, 1981

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As Marked



MEMBERS:  
T. TOMMY CUTRER  
JOE SCOTT  
EDWARD DAVIS  
EDGAR H. GILLOCK  
CARL D. KOELLA, JR.  
BEN LONGLEY

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COMMERCE AND LABOR COMMITTEE  
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MARTHA RIMLINGER  
STAFF ANALYST  
TODD O. MAIDEN

MEMORANDUM (page 1 only)

TO: Commerce, Labor and Agriculture Committee  
FROM: Subcommittee Studying Automobile Compulsory Insurance Laws  
DATE: November 19, 1981

The Subcommittee appointed to study compulsory insurance legislation has completed its work and submits the following:

COMPULSORY INSURANCE:

The Subcommittee reviewed and studied this concept in depth. We visited the state of Georgia, West Virginia and Pennsylvania to obtain first-hand information on the workings and effectiveness of their compulsory program. During a day-long public hearing on September 23, 1981, we heard testimony from a variety of concerns and interests on the subject.

Based upon information obtained from these and other sources, it is the recommendation of this committee that Tennessee not adopt any form of compulsory insurance. (Senator Crockett and Senator Bill Jim Davis voting for this recommendation, with Senator Ed Davis abstaining. An explanation of his position is attached to this report.)

Comments on Recommendation:

This subcommittee supports the concept of compulsory insurance. Every motorist should purchase sufficient liability insurance coverage to pay for any negligent act they may commit while using our streets and highways. Yet, our findings reveal that despite considerable and varied enforcement efforts in other states including the adoption of no-fault, no state has devised a workable or cost effective enforcement system. In addition, experience in other states indicate the adoption of compulsory insurance in Tennessee would only increase the percentage of insured drivers from the current 80 percent to 85 percent. More importantly, the cost of liability insurance plus uninsured motorist coverage in Tennessee is less than same coverage in any compulsory state, and considerably less than the same coverage in any compulsory no-fault state. The responsible motorist should not pay more for insurance coverage nor be subjected to harassment in a futile effort to enforce a compulsory insurance law.



DALE CATTANACH  
STATE AUDITOR  
SUITE 502  
131 WEST WILSON STREET  
MADISON WISCONSIN 53703  
(608) 265-7818

March 10, 1981

Senator Gary George and  
Representative Phillip Tuczynski, Co-Chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin

Dear Senator George and Representative Tuczynski:

We have completed our evaluation of the Safety Responsibility Program in the Department of Transportation which is designed to encourage uninsured motorists involved in accidents to settle damage claims.

We examined several alternatives to the current Safety Responsibility Program, including mandatory insurance and eliminating the Program. Experience in other states indicates that mandatory insurance programs do not substantially reduce the number of uninsured motorists and the cost of administering such a program is more than double the cost of the Safety Responsibility Program. Elimination of the Safety Responsibility Program would remove state leverage that encourages out-of-court settlements for accidents involving uninsured motorists. Therefore, we have recommended that the existing Safety Responsibility Program be continued. However, we have recommended several program improvements which should increase the number of out-of-court settlements and provide injured parties with better access to deposits collected by DOT from uninsured motorists. These recommendations do not require legislative action.

We appreciate the courtesy and cooperation extended to us by the Department of Transportation and the Transportation Commission.

Respectfully submitted,

LEGISLATIVE AUDIT BUREAU

By *Dale Cattanach*  
Dale Cattanach  
State Auditor

DC/jla

# Warnings are sent to 196,000 car owners in state insurance foulup

CHARLESTON, (W.Va.) (AP) — Motor Vehicles Commissioner Virginia Roberts said Wednesday that her office has been forced to mail 196,000 warnings to drivers that their insurance is about to expire, and that almost all of the warnings were wrong.

Mrs. Roberts was one of several witnesses who pleaded with the House of Delegates' Banking and Insurance Committee to work for changes in the state's compulsory insurance law. Her appeal during a public hearing Wednesday was supported by three state legislators and a host of other witnesses.

The law, passed last year, requires motorists to submit proof of liability insurance before they can register their cars. Mrs. Roberts said she supports the law in principle, but that it has been a nightmare to administer.

Under the law, insurance companies are required to provide motorists with a card certifying that they are insured. The cards then must be presented to the Motor Vehicles Department.

Mrs. Roberts said her depart-

ment has been snowed under by paperwork, and that her office now looks like "the biggest ant hill in Charleston."

One of the biggest problems, she said, is a requirement that her office mail notices to people whose insurance is about to expire. She said that since October, when the law took effect, the DMV has mailed 196,000 notices but 95 percent were to people who never had their insurance terminated, but paid late.

In addition, Mrs. Roberts said, state police have been asked to confiscate 2,584 driver's licenses from people who, according to DMV records, have failed to renew their insurance. But once again, 95 percent of those policies probably have been brought up to date, she said.

When a notice is sent to a motorist "it probably crosses in the mail with the premium check," she said.

The additional paper work heaped on the DMV has forced the agency to seek more office space, which will cost \$94,000 a year to rent, she said.

Two delegates who favor

changing or repealing the law are Marion Shiflet, D-Monroe, and George Farley, D-Wood. Both are insurance agents and both said they voted against the law last year.

Farley said the confusion brought about by the law has driven many of his 2,500 clients "bananas."

Del. William Carmichael, R-Jackson, confessed that he voted for the law last year but called that decision "the biggest mistake I've made since I've been in the House of Delegates for eight years."

Carmichael told committee members if there's a way of "doctoring up the problems we've heard about ... then I hope you take a crack at that."

If it's not possible to clean up the statute, Carmichael said, the Legislature "should just back up and let's repeal that law."

Committee Chairman C.E. "Slim" Martin, D-Berkeley, said the committee did not have a bill before it to revise the law. But he said one could be written up on the basis of testimony at Wednesday's hearing.

# Roberts Offers Car Insurance 'Anthill' Tour

By NANYA GADD  
Of the Capitol Bureau

Motor Vehicles Commissioner Virginia Roberts today invited legislators to walk across the street and see "the biggest anthill in West Virginia."

Mrs. Roberts testified at a House hearing on problems with the state's new compulsory auto insurance law. Passed last year, the law has resulted in a mountain of paperwork for her agency and unnecessary hassle for many of the state's premium-paying citizens, she said.

Since the law became effective Oct. 1, the Department of Motor Vehicles has mailed out 198,000 notices of auto license cancellation, she said. She estimated that 95 percent of those notices have gone to persons who had never let their insurance policies lapse.

She has had to add a night shift of 27 workers to her staff to handle the extra load, Mrs. Roberts said. Because she doesn't have room in the DMV building across the street from the Capitol to file all the correspondence generated by the law, she will have to rent more office space at a cost of \$91,000 a year, she said.

Several lawmakers also testified at the hearing. Del. William Carmichael,

D. Pulnam, said voting for compulsory insurance last year "was the biggest mistake I've made since I've been in the House of Delegates for eight years."

"Flaws in the new procedures are too serious to be corrected, Carmichael said. "The finest thing this session can do is back up and undo what we did last year." He suggested that the law be repealed.

Some insurance industry spokesmen also called for repeal, but Mrs. Roberts and other speakers said the theory behind the law was good. They suggested several revisions in the way it is being carried out.

Insurance companies now must notify DMV when policies are about to expire. DMV, in turn, must mail those persons notices of license cancellation. The DMV notices and owners' premium payments "are probably crowding each other in the mail," Mrs. Roberts said.

But once a notice goes out, the car owner must submit a certificate of insurance to DMV. Many persons who already have paid their premiums simply disregard the notice, Mrs. Roberts said.

If that happens, DMV issues a license pick-up order to be executed by the state police. More than 2,500 such orders have been issued, she said. She be-

lieves most of them involve "good, God-fearing people who have insurance on their cars."

She asked the House Banking and Insurance Committee to eliminate the provision that requires submission of a formal certificate. Vehicle owners simply should be required to sign a statement saying they have insurance when they renew their licenses each year, she said. They also should be required to keep proof of insurance in their vehicles to show policemen if they are stopped on the highways.

Del. Marlon Shillet, D-Monroe, who is in the insurance business, suggested similar revisions. But he said his plan was so simple it probably wouldn't work.

Del. George Farley, D-Wood, also an insurance agent, said, "I don't remember anything this Legislature has ever passed that has upset the citizens of this state as much as this law has."

Support for compulsory insurance has dropped among his constituents, Farley said. And as for his customers, he said, "I've been close to fist fights at

times. My only out is to tell them I didn't vote for it. People are upset out there."

John Bernstein, a spokesman for State Farm Insurance Co., described West Virginia's new law as "the archetypal example of how not to have a compulsory insurance system." But he said no state that has passed such a law has been successful in reducing the number of uninsured motorists on the road.

Although Bernstein wants to see West Virginia's law revised, he said compulsory insurance "doesn't work in any form."

House Insurance Chairman Clarence Martin, D-Berkeley, said he will wait for the Senate to begin action on bills concerning compulsory insurance since that body originated last year's bill and "put us in the mess we're in."

But Martin said if the Senate takes no action within three weeks, his committee will take up the issue. He'll put all bills that have been introduced on the agenda, he said, "including repeal legislation."



# New law on car insurance 'nightmare' to prosecutors

By Carol Sowers  
Republic Staff

Although it won't go into effect until Jan. 1, the state's mandatory car-insurance law already is being described as "ridiculous" and an "administrative nightmare" by some prosecutors who will have to enforce it.

"The bill is a hell of a mess," said Al Heinze, executive director of the Arizona Prosecuting Attorneys Advisory Council, a lobbying group.

Heinze and R. William Call, Tucson's city prosecutor, said they hope to seek revisions to the complex law,

which imposes stiff fines on drivers convicted of not having insurance.

They and other prosecutors are at odds over interpretation of the law with state Rep. Bill English, R-Sierra Vista, who wrote the bill approved by legislators earlier this year.

English acknowledged there are "mechanical problems" with the law but he discounted many of the prosecutors' complaints.

"They (prosecutors) want everything on a silver platter," he said. "They want us to do their work for them."

— Insurance.

## Insurance

Continued from A1

Under the law, motorists are required to carry minimum liability coverage of \$15,000 bodily injury for each individual in an accident, \$30,000 bodily injury for two or more people in an accident, and \$10,000 for property damage.

Motorists who do not buy insurance will be allowed to file a \$40,000 bond with the state Motor Vehicle Division.

Prosecutors critical of the legislation maintain that it:

- Is unclear as to when trials must be held.
- Places prosecutors in the legally precarious position of trying to prove that motorists do not have insurance.
- Includes a legally questionable provision that allows judges to issue complaints against allegedly uninsured motorists.

• Could add thousands of cases a year to municipal court calendars.

• Forces cities to become repositories of confiscated driver's licenses, thus creating a new layer of bureaucracy.

• Requires out-of-state drivers to remain in Arizona for five days before they can retrieve their driver's licenses.

Heinze said he is "embarrassed" about the law because of the problems.

"I just flat missed this," he said. "I don't know what happened."

English says the bill "slipped by" no one.

"That is pure, unmitigated baloney. That's why public hearings were held," he said.

The law, introduced in various forms in the Legislature for three years before finally making it this year, requires a vehicle owner to sign a statement affirming he has insurance before he can get his vehicle registered with the state.

About 200,000 of the 2.4 million vehicles in the state must be re-registered each month.

Under current law, motorists must prove they have insurance only at the time of an accident. Failure to have insurance or other proof of financial responsibility could result in a year-and-a-day revocation of a driver's license.

Under the new law, a motorist ticketed for an accident that results in \$500 damage, injury or death must surrender his driver's license to the police officer at the scene.

He cannot retrieve his license for at least six days and until he appears in court and shows proof of insurance, according to the law.

In the meantime, however, he can continue to drive because a copy of the traffic ticket serves as a temporary license.

Drivers convicted of not having insurance can be fined \$250 for the first offense; \$500 and a three-month license suspension for the second offense; and \$750, a six-month license suspension, and a five-day jail term for the third offense.

Plea bargaining will not be an option. People who plead innocent to being uninsured but cannot produce proof of insurance must face trial.

How soon that trial must be held is unclear.

Call, Heinze and Kerry Wangberg, staff attorney for Phoenix Municipal Courts, agreed that the law requires trials to be held within 10 days after plea is entered.

English disagrees.

He said the law requires trials to be scheduled — not necessarily conducted — within that time limit.

"If that's what he (English) wanted to say, he didn't say it," Call said.

Prosecutors said they are getting up to hold trials within the 10-day limit.

"You can imagine the headache that will cause in bringing matters to trial within 10 days because you have to subpoena witnesses," Wangberg said.

Heinze said prosecutors also are concerned about being forced to prosecute a motorist who does not have insurance.

"It is very difficult to prosecute a negative," Heinze said. "We will have to subpoena every company license to seal auto insurance in the state."

English is unsympathetic.

"That's tough," he said. "It is the government's responsibility to prosecute its case."

J. Michael Low, director of the state insurance department, said insurance companies write 92 percent of auto insurance sold in the state and that another 150 sell the remainder.

Aware of the prosecutors' concerns, Low said, auto insurers may be required to provide a form that could be accepted by the court as proof of insurance. If a defendant does not have an up-to-date form on file with an insurer, it could be assumed not covered, Low said.

"Prosecutors should not panic," he said.

A provision in the law that appears to allow judges to issue complaints against defendants who cannot provide proof of insurance has been criticized by prosecutors.

Heinze said judges do not issue complaints in any other court matters because it could place the defendant in conflict if they were to hear the case when it came to trial.

English said he understands the prosecutors' difficulty with that portion of the bill but said it is a mechanical problem and may be rewritten.

However, he said, as the law

Sunday, December 19, 1932

## Insurance

Continued from A4

stands, judges can order prosecutors to issue complaints.

Call and other prosecutors disagree.

"Judges don't have the power to order prosecutors to issue complaints," Call said.

Wangberg said the caseload spawned by the new law is expected to clog court calendars and require cities to become repositories for confiscated driver's licenses.

He said 29,000 traffic accidents that resulted in \$500 damage or injury occurred in Phoenix alone last year. And next year, there could be more, he warned.

Phoenix Municipal Court officials have asked the City Council to hire two clerks at a cost of \$15,000 for the first half of 1933, according to Jack Tevlin, the council's administrative assistant.

The clerks must match licenses with citations and return them to motorists when they prove they have insurance, Wangberg said.

"You can see what an administrative nightmare that will be," he said.

About a third of motorists involved in traffic accidents are expected to be uninsured and may face trial, thus creating a new set of offenders to be handled through the court system, he added.

Tevlin said that if a new municipal

city \$50,000 for the first half year.

English maintained that the cost to the city should be offset by fines levied against uninsured motorists.

Tevlin, however, said city cannot be sure if the fines will cover the costs.

The provision requiring enforcement officers to confiscate drivers licenses and force motorists through the court system is "absolutely ridiculous," Call said.

Instead, he said, officers should write the citation at the scene of the accident and return it to the person who could not prove he was insured. The citation then could be dismissed by the court if the motorist later could prove to the prosecutor that he was insured.

Call said he agrees with the spirit of the law.

"It just needs to be cleaned up," he said.

The fate of out-of-state drivers is unclear in the law, Heinze said.

He said that as it is written, it requires out-of-state drivers to remain in the state until they can appear in court and prove they have insurance.

But English said he believes judges can allow them to mail their insurance to the court, even if that provision is not written in the law.

He said that if a new municipal



HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

MAR 28 1983

Pouch Y. State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

March 28, 1983

MEMORANDUM

TO: Representative Joe Hayes  
Attention: Jeff Day

FROM: David Teal *Teal*  
Research Staff

RE: Automobile Liability Insurance  
Research Request Number 83-128

Jeff Day, of your staff, asked for information relating to automobile liability insurance. More specifically, he requested the latest estimates of the proportion of uninsured motorists in Alaska, the number of vehicles registered in the state, the number of licensed drivers, and the amount of property damage and personal injury caused by uninsured motorists.

Insured vs. Uninsured Motorists

As you may know, automobile liability insurance policies generally cover some persons not named on the policies; as far as the insurance provider is concerned, the unit of exposure is the vehicle, not the policy-holder or the number of potential operators. This factor makes determining the number of uninsured drivers very difficult and is the reason that data are usually presented in terms of uninsured vehicles rather than uninsured persons.

The Division of Insurance prepared statistics on the number of uninsured vehicles in Alaska, but included several caveats in the analysis. (See Attachment A.) That study used information from several sources and produced two estimates of the number of uninsured vehicles during several years. The estimates are so dissimilar that one must question their value. For example, the estimate of uninsured vehicles in 1980 was 40.5 percent by one method and 11.0 percent by the other method.

A third method, which was used by the Division of Drivers' Services in the Department of Public Safety, is likely to provide a much better estimate of the proportion of motorists in Alaska that are uninsured. The division reviewed records of accidents that occurred during January of 1981 and found that 21 percent of motorists involved in accidents were uninsured. A repeat of the study in January of 1982 showed that

20 percent of motorists were uninsured. Applying the 20 percent figure to the vehicle registration statistics presented later in this memorandum produces an estimate of about 100,000 uninsured vehicles in the state. Figures for 1983 have not been compiled.

### Liability Limits

Jeff Day noted that liability limits of \$100,000 per person (to a maximum of \$300,000 per accident) for bodily injury and \$50,000 for property damage--traditionally written as 100/300/50--are "standard" and wondered how many insured drivers currently carry less than this amount of liability insurance. I was unable to find any written record of the number of motorists that purchase more insurance than is required by law, but it is worth noting that Alaska currently requires 25/50/10 and that Hawaii is the only state with higher limits than Alaska. (See Attachment B.)

The only way to determine the number of policies written for limits higher than the minimum is to contact the individual insurance companies. A reasonable estimate could be obtained by contacting State Farm, Allstate, Criterion, and United Services. Together, these companies insure about 70 percent of Alaska's motorists.

I was able to contact Allstate and State Farm Insurance Companies, and spokesmen for both said that their most common coverage is 100/300/50. In this sense, the 100/300/50 policy is the industry standard. According to State Farm Insurance, the additional cost of 100/300/50 amounts to only about \$20 per year more than the 25/50/10 coverage. The company also pointed out that law suits now commonly exceed Alaska's current minimums.

### Damage and Injury Caused by Uninsured Motorists

There are no requirements that records on this subject be maintained. Don Koch, of the Division of Insurance, stated that he wouldn't even be able to "guesstimate" because he felt that much of the damage is unreported and/or uncompensated. A similar opinion was expressed by representatives of the insurance industry.

As you may be aware, uninsured motorist coverage is a mandatory offering in Alaska. This means that insurance companies must offer the coverage and inform clients of its availability. There is no requirement that the coverage be purchased.

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Registered Vehicles and Licensed Drivers

According to Sharon Naus, of the Division of Drivers' Services in the Department of Public Safety, there were 316,797 persons holding valid Alaska drivers licenses on January 10, 1983. She also reported that 407,870 vehicles were registered in Alaska in calendar year 1982. The following table shows the number of registered vehicles by vehicle type.

Motor Vehicles Registered in Alaska  
Calendar Year 1982

<u>Vehicle Type</u>	<u>Number</u>
Passenger Auomobiles	217,719
Motorcycles	14,504
Commercial Trailers	10,079
Utility Trailers	37,999
Commercial Trucks	19,361
Pick-ups	106,851
Buses	1,357
TOTAL	407,870

Source: Department of Public Safety 3/83

\* \* \*

In addition to material obtained from the Division of Insurance, I am attaching a recent House Research Agency memorandum on the subject of compulsory insurance. If you have questions about information presented in this memorandum and its attachments or have additional questions, please call.

Attachments

- A) Alaska Drivers: Insured vs. Uninsured (Division of Insurance, undated)
- B) Liability Limits (Division of Insurance, undated)
- C) Research Request 83-48

The division's statistical needs respond to rate-making and solvency issues. Nevertheless, it has made an attempt to obtain some feeling as to what portion of the public may be uninsured. Unfortunately, a number of caveats must be placed on this information. The sources for the data used in the calculation come from several areas and in each case, this data is untested and has been subject to some adjustment or assumption which may cast suspicion on its accuracy.

You will note the substantial difference between the two charts. The reason for this difference is attributed to the different interpretation of what constitutes a private passenger type risk. The caveats following each chart detail the source of the numbers.

The data that follows is useful for "guesstimating" the percentage of insured motor vehicles in Alaska. It does not relate to insured persons in Alaska. To our knowledge, there is currently no source for arriving at a number of insured persons since a policy, when written, covers some persons not named automatically.

The unit of exposure, as far as the insurer is concerned, is the number of vehicles not the number of potential operators.

(1) Year	(2) Registered Autos	(3) Insured Car Years	(4) % Insured	(5) % Uninsured
1975	199,536	117,355	58.8	41.2
1976	221,386	120,964	54.6	45.4
1977	226,389	121,635	53.7	46.3
1978	232,425	123,581	53.2	46.8
1979	229,403	132,391	57.7	42.3
1980	230,040	136,895	59.5	40.5

- (1) This column is on a calendar basis.
- (2) The number of registered automobiles was obtained from the Division of Planning and Research in the Department of Transportation and Public Facilities of the State of Alaska. The number of auto registrations derives from the following types of license plates:
- Regular
  - Personalized
  - Call Letter
  - Other, including legislator, historic vehicle
  - Pickups and vans
  - Farm trucks

The numbers have been adjusted to remove duplicate registrations. They do not include unregistered vehicles, nor is there a method to arrive at a reasonable "guesstimate" of that number. Prior to 1977, pickups and vans were included in the freight-light trucks classification. We have made an adjustment to separate the pickups and vans from that classification, based on the relationship during 1977-79 of the pickups and vans classification to the freight-light trucks classification. Official automobiles (State, federal and municipal) are not included. Some fleets of automobiles have been included but are not identifiable by name or number. The chart relates only to private passenger registrations and insurance.

- (3) These figures were obtained from the Automobile Insurance Plans Service Office (AIPSO), a licensed rating organization for this State. Included are voluntary and assigned risk nonfleet private passenger vehicles insured. An insured car year is one automobile insured for one year, so that, if a car is insured for six months, that would be 1/2 car year.

$$(4) = (3) \div (2)$$

$$(5) = 100\% - (4)$$