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Comments to the Committee on House Insurance
Opposition to 2017 HB 2104

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February 14, 2017

I am Larrie Ann Brown, Legislative Counsel for The Property Casualty Insurers Association of America (PCI). PCI is a trade association consisting of nearly 1,000 insurers of all sizes and types. Its member companies represent 35 percent of the total general insurance business and 42 percent of the total personal auto business in the nation. In Kansas, PCI members represent 47 percent of the personal auto market. PCI appreciates the opportunity to provide comments in opposition to 2017 HB 2104.

Kansas currently has a motor vehicle Financial Responsibility (F.R.) law that requires an owner of a motor vehicle to have full liability insurance coverage. Before last year the basic F.R. limits in KS were $25,000/$50,000/$10,000 which provided minimum coverage up to $50,000 for all persons injured in an accident, subject to a limit of $25,000 for one individual and $10,000 coverage for property damage.

A couple of years ago HB 2067 was introduced and a hearing was held. That bill would have raised the minimum FR limits to $50,000/$75,000/$35,000. A proposed bodily injury limit of $50,000/$75,000 would have meant that Kansas would have the third highest injury limits per accident in the country, after two very different states-Alaska and Maine. The bodily injury (BI) cap for injury in most other states is $25,000 or lower. After the hearing in 2015 the bill was requested for interim study.

After a day of hearing from both sides and a lively roundtable discussion, the interim committee decided to introduce a bill that would raise the property damage minimum limits to $25,000. PCI testified in opposition to the bill (2016 HB 2446) with concerns that any legislation that raises the minimum limits could have a negative impact on the market. The legislation ultimately passed and we now have limits of $25,000/$50,000/$25,000 which puts us in the middle of states for limits.

PCI strongly opposes 2017 HB 2104 which raises the F.R. limits for BI. Raising the minimum bodily injury limits is not needed to cover the cost of injuries in today's health care market since the cost of auto injury claims in Kansas is generally lower than the current BI F.R. limits. Based on 2012 claims compiled by the Insurance Research Council PCI estimates that the average BI payment for 9 out of 10 injury claims in this state was only about $13,400. In fact, the average paid claim for in Kansas for bodily injury was $18,572, well below the current F.R. limit of $25,000. Raising the per-person F.R. limits would mean superfluous coverage at a higher cost for drivers with minimum limits. A BI limit of $50,000/$100,000 would tie the highest injury limits in the country. Our current limits are line with most other states and should remain as such.

Many drivers in Kansas may not be able to afford anything other than the current basic F.R. limits and many do not need additional liability coverage. Excess liability protection simply adds costs to the insurance system and to consumers and therefore may lead to more drivers with no insurance. Those who want to have greater protection are certainly free to purchase higher limits, but why encourage more uninsured by raising the affordability of the policies?

We have attached a white paper analyzing the cost impact raising the minimum BI limits from $25,000/$50,000 to $50,000/$100,000 will have on Kansas consumers.

In addition we also oppose changing the law regarding uninsured and underinsured payments that will eliminate offsets. According to PCI analysis eliminating the ability to offset could increase UM/UIM rates by 26.2%. The change could impact nearly 1 million registered vehicles and is likely to increase rates across the board. The vast majority of states do not allow offsets. In the states that do allow offsets the average UM/UIM claim cost is significantly higher. This is due to the fact that disallowing an offset allows for potential double recovery and an incentive to build-up a claim therefore driving higher claims costs. For example, without an offset if an insurer pays for medical bills under medical payments coverage those bills can also be claimed and paid under UM/UIM. I have attached an additional white paper analyzing the impact of eliminating the ability to offset.

If you have any questions about the attachments, I'll be happy to address them. We thank you for the opportunity to provide written comment in opposition to 2017 HB 2104.

KANSAS MOTOR VEHICLE INSURANCE: ANALYZING THE COST IMPACT OF RAISING THE FINANCIAL RESPONSIBILITY LIMITS

This PCI analysis examines the impact of a potential consideration in Kansas that would increase the motor vehicle insurance financial responsibility (F.R.) limits for bodily injury from 25/50 to 50/100. We will demonstrate that raising limits is not necessary and could negatively impact policyholders.

Raising the F.R. limits could impact a substantial portion of Kansas households – particularly those who can least afford insurance

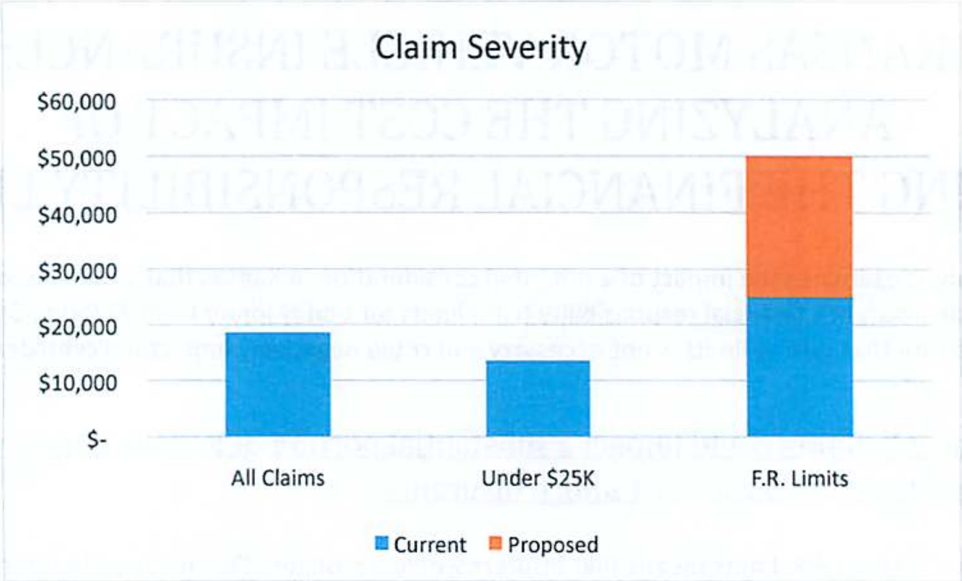
- An increase in F.R. limits means that insurers would no longer allow insurers to offer rates at basic limits. Those policyholders who carry minimum limits would have their rates adjusted to correspond with the higher limits. Based on a 2012 study[1], it is estimated that 12.3% of households in Kansas would have been affected by this change.
- Based on historical filings from several major insurance carriers, it is estimated an increase in minimum F.R. limits would have resulted in an increase of BI premium from +7.0% up to +50.0%.
- Drivers impacted by a proposed increase in F.R. limits are typically the ones with the least amount of income and the least amount of assets. In general, they are likely to be the ones penalized if an increase to F.R. limits is implemented. On the other hand, drivers with more assets and who have limits higher than 25/50/10 may not be as negatively impacted by this bill.

An increase in F.R. limits could lead to higher rates of uninsured drivers

- A separate analysis by PCI[2] found that there is a positive correlation between average liability premiums and the rate of uninsured drivers. This signals that an increase in F.R. Limits could lead to a higher rate of uninsured drivers.
- Based on a 2014 study[3], Kansas has the 18th lowest uninsured rate in the country. An increase F.R. limits could push it higher up the ranks.

Raising the F.R. limits is impractical and unnecessary

- Raising the F.R. limits is not needed to cover the cost of injuries in today's health care market, since the cost of auto injury claims in Kansas is generally lower than the current BI F.R. limits. Based on 2012 claims compiled by the Insurance Research Council (IRC)[4], the average paid claim in Kansas was $18,572, well below the current F.R. limit of $25,000.
- The same study shows that 90.1% of claims in Kansas were under $25,000. The average of these claims was around $13,500.



Conclusion

- A proposed BI limit of $50,000/$100,000 would tie the highest injury limits in the country. **Kansas' F.R. limits are now in line with most states, and should remain as such.**
- **Any proposal to raise F.R. limits would provide superfluous coverage and could raise prices for insurance covering more than 120,000 passenger cars[5] in the state.** Furthermore, it is not sound policy to require anyone to purchase additional coverage that could result in an increase in costs – and, hence, rates – especially when it is not necessary. If drivers want to have greater liability protection, they are certainly free to purchase higher limits.
- In conclusion, it is unnecessary and impractical to raise F.R. limits in Kansas. If the intent of the proposed bill is to reflect today's reality in terms of costs, then Kansas' F.R. limits should remain as they are. In this way, consumers can continue to have greater options in their auto insurance and at more affordable prices. Any proposal to raise the F.R. limits should be defeated – **keeping costs down for Kansas drivers should be the most significant consideration.**

Sources

1) *2012 Insurance Research Council - Auto Injury Data*
2) *Using 2014 NAIC Auto Insurance Database Report 2014 and 2014 Insurance Research Council - Uninsured Motorists*
3) *2014 Insurance Research Council - Uninsured Motorists*
4) *2014 Insurance Research Council - Auto Injury Insurance Claims*
5) *2015 registered auto data from Statista multiplied by 12.3%*

KANSAS LEGISLATIVE BILL 2104: ELIMINATING MOTOR VEHICLE UNINSURED/UNDERINSURED PAYMENT OFFSET MAY ADVERSELY IMPACT DRIVERS

Summary

Kansas bill 2104 considers changing rules regarding uninsured and underinsured payments that will eliminate offsets. In addition to market disruptions, this change may prove detrimental to insurance consumers. This analysis will address potential impacts, using historical data, to demonstrate the negative effects of revising this law.

States with offsets have lower relative UM/UIM premiums and severity

- Using data from a 2014 NAIC report[1], the UM/UIM premiums for states that permit offsets comprises 13.3% of the total liability premium. In states that forbid offsets it is 15.4%. In states that permitted BI, WC, PIP, and medical payments offsets, this ratio was even lower at 12.8%.

- Using data from the same 2014 NAIC report, the average UM/UIM severity in states that permit an offset was $24,750. In states that don't permit an offset, the average was $36,058. In states that allow offsets, UM/UIM claims were 1.55 times larger than BI claims, but in states that do not permit offsets, the ratio was 1.96.

- PCI estimates that eliminating the offset could increase UM/UIM rates by 26.2%.

Changes to the offset may result in disruptions to the market

- An elimination of the offset would affect drivers across the board. PCI estimates that this could impact nearly 1 million registered vehicles[2].

- It is likely that an elimination of the offset would increase rates across the board. Those most negatively impacted by rate increases are typically individuals with the least amount of income and assets.

- An analysis by PCI[3] shows a positive correlation between higher liability premiums and higher rates of uninsured motorists. This signals that an elimination of the offset could lead to a higher rate of uninsured drivers.

- A change in coverage could require insurers to adjust their rates. According to an SNL market share analysis, as of year-end 2015, there are 60 active writers in Kansas. Some of these insurers have multiple filings which may need rate revisions.

Consumers are empowered by choice

- Options already exists in the voluntary market for those consumers who require higher UM/UIM coverage.
- We'd encourage consumers to contact their agents and/or carriers to learn more about their coverage. Coverage education is key to determining the value a carrier can provide to consumers.

Sources

1) *2014 NAIC Auto Insurance Database Report 2014 using calendar year 2013 data*
2) *Statista data on 2015 vehicle registrations*
3) *Using 2014 NAIC Auto Insurance Database Report 2014 and 2014 Insurance Research Council - Uninsured Motorists*