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# Memorandum

TO: The Honorable Scott Schwab, Chair
Special Committee on Insurance

FROM: William W. Sneed, Retained Counsel
State Farm Insurance

SUBJECT: Minimum Liability Limits for Motor Vehicles (H.B. 2067)

DATE: December 7, 2015

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for the State Farm Insurance Companies ("State Farm"). State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. We appear today in opposition to H.B. 2067.

An efficiently administered financial responsibility or safety responsibility law can be as effective as a compulsory or mandatory insurance law. It is less costly for state governments and for insurers. Moreover, a good financial responsibility law provides a tool for the victim that compulsory insurance does not. The not-at-fault driver can use the threat of loss of license as leverage to make sure the at-fault driver pays for the damages he or she caused.

A well-drafted financial responsibility law must provide that every accident involving bodily injury be reported to the state. On the other hand, the enforcement mechanism should not be triggered by reports of minor dents or scratches to motor vehicles. The reportable physical damage amount should be kept to a reasonable sum, and occasionally adjusted for inflation. The reportable limit must never be so high that persons causing serious accidents can avoid the consequences of effective enforcement. It is critical also for insurers like State Farm to be able to access motor vehicle records, including reported accidents, to identify good drivers and to adjust rates for accident-prone drivers.

Financial responsibility laws establish the minimum limits of bodily injury and property damage which must be provided by insurers, or financially responsible owners and drivers following an accident. The days of $5,000 per person and $10,000 per accident bodily injury and $5,000 property damage liability are long past. Much higher limits are now common. Nevertheless, high minimum limits can be counterproductive. They aggravate problems of insurance affordability for some drivers, and cause more uninsured drivers to be on the road. Moreover, when financial responsibility limits increase, they often have a shadow effect on jury verdicts and legal settlements. The "floor" of demand and recovery usually rises to the new minimum amounts.

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If we were to increase the FR limit from 25/50/10 to 50/100/25, this would affect 5% of the SFM book in KS, and of those affected, they would see a 7.3% BIPD increase in premium, and a 83% increase in UM premium. I was able to estimate what the BI and UM limit factors would be for 30/60 in KS, and that would have roughly a 2.2% BIPD premium increase and a 30% UM premium increase.

One way to try and limit or stabilize such increases would be to increase the medical threshold from $2000.00 to $2500.00. Although it is impossible to predict, we believe that such an increase could keep administrative cost flat notwithstanding the increase in limits.

We hope this information has been helpful and we stand ready to provide any additional information as needed.

Thank you.

Respectfully submitted,

William W. Sneed

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