

F I N A L   R E P O R T

MANDATORY AUTO LIABILITY INSURANCE STUDY COMMITTEE

May, 1988

The Mandatory Auto Liability Insurance Study Committee was mandated by Senate Concurrent Resolution 34. The Legislative Council charged the Study Committee to study and make recommendations regarding compulsory proof of financial responsibility for all operators of motor vehicles, the availability or unavailability of liability insurance to motor vehicle operators due to age or driving record, the amount of coverage available to motor vehicle operators and factors affecting that coverage.

The following members were appointed:

Senator Donald Gettings, Co-chairperson  
 Representative Tony Bisignano, Co-chairperson  
 Senator Donald Doyle  
 Senator William Palmer  
 Senator John Jensen  
 Senator Richard Drake  
 Representative Jack Holveck  
 Representative Dennis Renaud  
 Representative Bob Renken  
 Representative Phil Tyrrell

MEETING DAYS

The Interim Study Committee was authorized three meetings which were held on September 17, 1987, November 5, 1987, and December 14, 1987.

PRESENTATIONS

On September 17, 1987, the following presentations were made to the Interim Study Committee:

1. Mr. Norris Davis, State Department of Transportation. Mr. Davis reviewed the current Iowa law regarding proof of financial responsibility for motor vehicle liability. The law requires proof of insurance (or other forms of financial responsibility) only

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after a driver is involved in an accident or prior to relicensing after a license revocation or suspension. The current system focuses enforcement efforts and costs on the small percent of drivers causing problems.

2. Mr. Warren Richards, Benton County Treasurer. Mr. Richards represented the Iowa Association of County Treasurers and stated the treasurers generally would oppose any mandatory proof of insurance system which would slow down the registration process or burden treasurers with the onus of enforcement. Mr. Richards also requested an increase in registration fees to cover the true costs of administration. Fees have not been increased in the prior ten years.

3. Mr. William Timmons, Iowa Insurance Institute. Mr. Timmons advocated retention of the current law's approach as a remarkably successful system in comparison to states which have a mandatory auto liability insurance law.

Iowa, without a mandatory law, has well over 95% of its drivers insured, the second highest rate in the nation. Several states with mandatory auto liability insurance laws have 70% or less of their drivers insured. The proper means of protecting against uninsured or underinsured drivers is the purchase of relatively cheap uninsured and underinsured motorist coverage which would be necessary even with a mandatory law because hit-and-runs will still occur and some percentage will drive without a license, registration, and insurance. The risk cannot be entirely avoided, so must be insured against.

On November 5, 1987, the following presentations were made to the Study Committee.

1. Mr. Tito Trevino, President, Association of Trial Lawyers of Iowa. The Association is neutral on the issue of mandatory insurance despite the logical merit in people having insurance in an imperfect world. The neutrality stems from recognition of administrative and enforcement difficulties in states with mandatory insurance laws. Iowa compares very favorably on the percentage of Iowa drivers carrying insurance in comparison to mandatory insurance states. The Association, however, does recommend consideration of a significant increase in the minimum limits of financial responsibility under the current law to \$100,000. Often, injured parties cannot obtain full compensation under the current limit, but consideration of the impact upon rates and premiums is necessary. It would be counterproductive to increase premiums so much as to significantly reduce the percentage of insured drivers.

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2. Mr. Roy L. Born, Consultant, National Association of Independent Insurers. The Association represents over 550 property and casualty insurance companies, small and large, nationwide. Mr. Born stated that 18 years of experience in working with states on the issue of compulsory insurance taught one lesson: Compulsory insurance sounds very good in concept, but in practice simply does not work. Nineteen states with automobile liability laws similar to Iowa have compulsory laws. (The 17 states with no-fault liability are not comparable.) The cost of administration and added premium costs outweigh the intended benefits of compulsory laws. An effective and simple compulsory law has not been devised. Premiums have, in fact, been higher and risen faster in compulsory states, a key consideration for Iowa which has the second or third lowest average premium. A compulsory law will still not prevent the determined offender from driving and then injuring others. The uninsured driver is much more likely to be in an accident. The proper defense is to purchase uninsured and underinsured motorists coverage. Legislative options include making this coverage mandatory as part of an automobile liability policy or requiring the offer of a supplementary uninsured motorist property damage coverage. Iowa's current financial responsibility law is better than a compulsory law, but could be strengthened. The NAI's Model Financial Responsibility Law (including stronger administrative authority to suspend licenses) is the best option to reducing uninsured motorists.

3. Mr. Lee Duin, Assistant Director, Office of Polk County Treasurer. (Written testimony.) Mr. Duin emphasized the need for simplicity and efficiency in the vehicle registration process. The majority of counties conduct the vast majority of renewals through the mail. A mandatory insurance law should not:

- a. Restrict, eliminate, or complicate mail renewals.
- b. Reduce the efficiency of current operation.
- c. Increase staffing requirements.

Mandatory insurance as a prerequisite to registration renewals would adversely affect treasurer's operations in all three categories, so registration renewals should be excluded from mandatory insurance issues.

4. Mr. William Timmons, Iowa Insurance Institute. Mr. Timmons submitted and explained the All-Industry Model Uninsured and Underinsured Motorist Act and advocated it replace the current Code chapter on uninsured and underinsured motorists. (Mr. Timmons spoke before the first session of the Committee on the general topic of mandatory insurance, and returned to present specific legislative proposals and to answer questions).

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5. Mr. William D. Hager, Iowa Commissioner of Insurance. Commissioner Hager generally endorsed the existing Iowa financial responsibility law, and questioned the cost-benefits of going to mandatory insurance. The Commissioner also discussed the premium costs caused by increasing the minimum limits as proposed by Senator Doyle's Senate Study Bill 12. Senate Study Bill 12 would change the current segregated limits to a single higher aggregate limit as follows:

Current:

<u>Liability</u>	<u>Limits</u>
Bodily injury per person	\$ 20,000
Bodily injury per occurrence	40,000
Property damage per occurrence	15,000
Combined segregated single limit	55,000

Senate Study Bill 12:

Bodily injury per person)	
Bodily injury per occurrence)	100,000
Property damage per occurrence)	
Combined unsegregated single limit	100,000

Annual premiums for various categories of drivers were examined, with Senate Study Bill 12 causing an increase in annual premiums ranging from \$11 to \$50 compared to the current \$55,000 segregated limits requirements.

On December 14, 1987, the following presentations were made to the Study Committee:

1. Mr. Daniel W. Krummer, Legislative Analyst, Alliance of American Insurers. The Alliance is a trade group representing more than 175 property/casualty automobile insurers. The Alliance opposes compulsory auto insurance, in part because it cannot and will not remove the uninsured driver from the road. Uninsured motorists coverage is still required. Even without willful violators of compulsory laws, there will still be out-of-state drivers, hit-and-run drivers, and drivers of stolen cars. Strong enforcement of Iowa's existing financial responsibility law is a better alternative. Iowa's current minimum limits under the financial responsibility law are adequate, but could be raised some in recognition of inflation, but \$100,000 as proposed by Senate Study Bill 12 would be counterproductive by pushing too many drivers out of insurance through significantly higher premiums. Most states range between limits of 10/20/5 to 25/50/25 for segregated limits or 25 to 75 for combined single limits. The proposed \$100,000 CSL is comparatively high.

RECOMMENDATIONS AND TOPICS FOR FURTHER RESEARCH.

The Committee recommended the following:

1. A bill raising the current minimum limit from 20/40/15 to a combined single limit of \$75,000, mandating the inclusion of uninsured and underinsured motorist coverage in all automobile liability insurance policies, and prohibiting insurers from increasing premiums or canceling insurance for an individual insured for claims made against the uninsured and underinsured motorist coverage.

2. The Committee further noted with concern, but recommended no specific legislative action, that strict enforcement of drunk driving laws, including automatic license suspension for refusing to take a breathalyzer test, was contributing to the number of insured drivers on the road. The adverse impact of the drunk driving laws upon the uninsured motorist problem was felt to be partly attributable to the lack of a work permit when a license has been revoked for failure to take a breathalyzer test.

The bill recommended is in part a modified version of Senate Study Bill 12 with a lower combined single limit. Voting for reporting the bill with recommendation:

Senator Donald Doyle  
Representative Tony Bisignano  
Senator John Jensen  
Senator William Palmer  
Representative Dennis Renaud  
Representative Bob Renken

Voting against the bill with recommendation:

Senator Donald Gettings  
Representative Jack Holveck

The Study Committee also considered, but did not recommend and vote upon:

1. All-Industry Model Uninsured and Underinsured Act, advanced by Mr. William Timmons on behalf of the Iowa Insurance Institute.

2. A simple mandatory auto liability bill requiring the carrying of a proof-of-insurance card and imposing fines for violations, similar to Missouri or Nebraska law.

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3. House File 733, a Mandatory Auto Liability bill providing for compensation of uninsured and underinsured motorists' victims from a reparations fund funded by fines.

4. The National Association of Independent Insurers Model Mandatory Safety Responsibility Law, advanced by Mr. Roy Born of the National Association of Independent Insurers.

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED MANDATORY AUTO-  
MOBILE LIABILITY INTERIM  
STUDY COMMITTEE BILL)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to automobile liability insurance by altering the  
2 minimum proof of financial responsibility for motor vehicles,  
3 by mandating the inclusion of uninsured and underinsured  
4 motorist coverage in an automobile liability insurance policy,  
5 and by regulating certain automobile insurance rates.

6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA: .

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1 Section 1. Section 321A.1, subsection 10, Code 1987, is  
2 amended to read as follows:

3 10. PROOF OF FINANCIAL RESPONSIBILITY. Proof of ability  
4 to respond in damages for liability, on account of accidents  
5 occurring subsequent to the effective date of the proof,  
6 arising out of the ownership, maintenance, or use of a motor  
7 vehicle, in amounts-as-follows:-With-respect-to-accidents  
8 occurring-on-or-after-January-17-1981,-and-prior-to-January-17-  
9 1983,-the-amount-of-fifteen-thousand-dollars-because-of-bodily  
10 injury-to-or-death-of-one-person-in-any-one-accident,-and-  
11 subject-to-the-limit-for-one-person,-the-amount-of-thirty  
12 thousand-dollars-because-of-bodily-injury-to-or-death-of-two  
13 or-more-persons-in-any-one-accident,-and-the-amount-of-ten  
14 thousand-dollars-because-of-injury-to-or-destruction-of  
15 property-of-others-in-any-one-accident,-and-with-respect-to  
16 accidents-occurring-on-or-after-January-17-1983,-the-amount-of  
17 twenty-thousand-dollars-because-of-bodily-injury-to-or-death  
18 of-one-person-in-any-one-accident,-and,-subject-to-the-limit  
19 for-one-person,-the-amount-of-forty-thousand-dollars-because  
20 of-bodily-injury-to-or-death-of-two-or-more-persons-in-any-one  
21 accident,-and-the-amount-of-fifteen-thousand-dollars-because  
22 of-injury-to-or-destruction-of-property-of-others-in-any-one  
23 accident the amount of seventy-five thousand dollars for all  
24 damages of whatever nature from any one accident, including  
25 bodily injury or death of one or more persons, and damage to  
26 or destruction of property of a person other than the insured.

27 Sec. 2. Section 516A.1, Code 1987, is amended to read as  
28 follows:

29 516A.1 COVERAGE INCLUDED IN EVERY LIABILITY POLICY---  
30 REJECTION-BY-INSURED.

31 No An automobile liability or motor vehicle liability  
32 insurance policy insuring against liability for bodily injury  
33 or death arising out of the ownership, maintenance, or use of  
34 a motor vehicle shall not be delivered or issued for delivery  
35 in this state with respect to any motor vehicle registered or



1 principally garaged in this state, unless coverage is provided  
 2 in such the policy or supplemental thereto to the policy, for  
 3 the protection of persons insured under such the policy who  
 4 are legally entitled to recover damages from the owner or  
 5 operator of an uninsured motor vehicle or a hit-and-run motor  
 6 vehicle or an underinsured motor vehicle because of bodily  
 7 injury, sickness, or disease, including death resulting  
 8 therefrom, caused by accident and arising out of the  
 9 ownership, maintenance, or use of such the uninsured or  
 10 underinsured motor vehicle, or arising out of physical contact  
 11 of such the hit-and-run motor vehicle with the person insured  
 12 or with a motor vehicle which the person insured is occupying  
 13 at the time of the accident. Both the uninsured motor vehicle  
 14 or hit-and-run motor vehicle coverage, and the underinsured  
 15 motor vehicle coverage shall include limits for bodily injury  
 16 or death at least equal to those ~~stated in section 321A-1,~~  
 17 subsection 10 provided in the automobile or motor vehicle  
 18 liability coverage of the policy. The form and provisions of  
 19 such the coverage shall be examined and approved by the  
 20 commissioner of insurance.

21 ~~However, the named insured may reject all of such coverage,~~  
 22 ~~or reject the uninsured motor vehicle or hit-and-run motor~~  
 23 ~~vehicle coverage, or reject the underinsured motor vehicle~~  
 24 ~~coverage, by written rejections signed by the named insured.~~  
 25 ~~If rejection is made on a form or document furnished by an~~  
 26 ~~insurance company or insurance agent, it shall be on a~~  
 27 ~~separate sheet of paper which contains only the rejection and~~  
 28 ~~information directly related to it. Such coverage need not be~~  
 29 ~~provided in or supplemental to a renewal policy if the named~~  
 30 ~~insured has rejected the coverage in connection with a policy~~  
 31 ~~previously issued to the named insured by the same insurer.~~

32 Sec. 3. NEW SECTION. 516B.4 PROHIBITION AGAINST POLICY  
 33 RATE INCREASES SOLELY BECAUSE OF CLAIM FILED FOR ACCIDENTS  
 34 INVOLVING UNINSURED OR UNDERINSURED MOTORISTS.

35 1. The rate for an insured's automobile insurance or motor

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1 vehicle insurance policy insuring against injury or damages  
2 arising out of use of a motor vehicle registered in this  
3 state, if the policy is delivered or issued for delivery in  
4 this state, shall not be increased solely because a claim or  
5 claims against the policy were made due to injury or damages  
6 sustained caused by accident and arising out of the use of an  
7 uninsured or hit-and-run motor vehicle or underinsured motor  
8 vehicle.

9 2. This section applies only to accidents in which the  
10 driver of the uninsured or hit-and-run motor vehicle or  
11 underinsured motor vehicle is charged with a violation of  
12 chapter 321 or when a hit-and-run motor vehicle cannot be  
13 identified. This section also applies only to accidents where  
14 the insured was not at fault in the accident. The  
15 commissioner of insurance shall adopt rules pursuant to  
16 chapter 17A determining the reasonable percentage of fault at  
17 which the insured shall be deemed to be not at fault in an  
18 accident. However, the rules adopted shall require that the  
19 percentage of fault be less than fifty percent.

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## EXPLANATION

21 Presently, the requirement for motor vehicle financial  
22 responsibility is expressed in differing amounts for any one  
23 accident for bodily injury or death for one person, for bodily  
24 injury or death for two or more persons, and injury to or  
25 destruction of property of others. This bill replaces the  
26 segregated limits of \$20,000 per person, \$40,000 per  
27 occurrence, and \$15,000 for property damage with a single  
28 unsegregated minimum of \$75,000. The unsegregated minimum  
29 would be allocated on a case-by-case basis. If an accident  
30 causes only property damage, the entire \$75,000 would be  
31 available to compensate for property damage, rather than the  
32 current \$15,000.

33 Uninsured and underinsured motorist coverage is made  
34 mandatory as part of motor vehicle liability insurance. An  
35 insurance company is prohibited from raising an insured's

1 rates due to an accident caused by an uninsured or hit-and-run  
2 motorist or underinsured motorist.

3 COMPANION TO LSB 7734SI

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