

The Insurance Federation of Pennsylvania, Inc.

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To: The Honorable Members of the House Insurance and Transportation Committees

From: Samuel R. Marshall

Re: **SB 928 and HB 1258 – increasing the minimum auto insurance requirements**

We believe the current minimums – that all cars have at least coverage for \$15,000 for injury to one person in an accident, \$30,000 for injuries to two or more people, and \$5,000 for the property damage of others – serve the Commonwealth well. We believe the increases proposed in these bills won't.

We acknowledge the obvious:

- Statutory minimums for auto insurance are somewhat arbitrary. There is no absolute formula; it is a balance of making sure car owners can cover the damages they may cause, and making sure that coverage is affordable – a recognition that a car is both a responsibility and a necessity for adults in every region, and of every age and income.
- Pennsylvania's minimums are on the low end and haven't changed since 1990.
- The minimums aren't etched in stone. We appreciate your willingness to look at this and other insurance laws to make sure they answer consumers' needs, because those needs can change over time. We believe the current minimums meet those needs, and we'll explain why - but we're also here to be part of a dialogue and learn from others.
- We provide coverage at all levels, including the current and proposed minimums. And we like people having more, not less, insurance.

You'd think that would make us neutral or supportive. But looking at the history of auto insurance minimums and the auto insurance market, we think the proposed increases are the wrong balance for Pennsylvania, and that the current minimums should remain in place.

First, we don't see the consumer benefit in increasing the minimums.

- **This will raise the cost of auto insurance for roughly 1 million Pennsylvanians.** That's how many people purchase less than the proposed minimums – a little more than a million if you go with the 30/60/10 level in HB 1258, a little less than a million if you go with the 25/50/10 level in SB 928.

- **These Pennsylvanians are generally those with lower or fixed incomes.** They generally live in areas with higher insurance costs – especially Southeastern Pennsylvania. And those paying the higher rates won't benefit from the added coverage they have to buy – others might, but not them.

- Proponents of the increased minimums say premium increases will be negligible. If that were true, we wouldn't be here today:
 - o For those at the current minimums, doubling that will mean increases from just under 10% to close to 30%; for an increase to 25/50/10, it will be less but still significant. And the increases will be sharpest where premiums are highest, in Southeastern Pennsylvania.

- This won't lower rates for those who purchase more than the minimums, or mean more money for those with claims against those with minimum coverage. In theory, it may lower underinsured motorist claims – but that will be offset by a rise in uninsured motorist claims: As the cost of minimum coverage goes up, so do the number of uninsureds.
 - o We appreciate the justifiable anger when you are hit by somebody without enough insurance – the only thing worse is being hit by somebody without any.

- That's why this is a balance of consumer interests: Yes, people need auto minimums that provide meaningful protections. They also need minimums that are affordable for people of lesser means. We note the Insurance Department's past report on this, which found that most claims still fall within these minimums.

- The real crisis in auto insurance is when it becomes too expensive for lower income citizens. We don't have that problem now. That's not a fluke – it is the result of hard decisions and wise balances you've made over the years.

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Second, we are mindful of the history of auto insurance in Pennsylvania.

Pennsylvania actually considered higher minimums. In 1984, it passed a bill raising the minimums to 20/40/7.5, and with a further increase scheduled for 1986 to 25/50/10 – the level in SB 928, but 30 years sooner.

But auto insurance was expensive and hard to get, and the state was confronted with a growing number of uninsureds and growing pressure to reduce costs, especially for those at the minimum level and in Southeastern Pennsylvania.

The corrections were bipartisan. First came Act 12 of 1984: The General Assembly not only set aside the pending increase, but lowered the minimum requirement to the previous and still-current level. Then came Act 6 of 1990, with the creation of the limited tort option – a further reduction in mandated coverage.

Both laws recognized a fundamental truth about auto insurance: **Higher minimums mean higher rates for those least able to afford them, and that means more uninsureds – which doesn't help anybody.**

We have an auto market that is competitive and affordable. And we have one of the lowest uninsured rates in the country.

This hasn't happened by accident or by heavy regulation and enforcement. It has happened because the General Assembly stepped in to make auto insurance affordable for people of all incomes and in all regions. The current minimums have been an integral part of that, and they should remain.

Third, the current minimums are not outdated or inconsistent with other states.

We hear it all the time: "PA is the second lowest state in the country." I'm not sure that alone would justify an increase, but in any event, it isn't accurate.

Attached is a list of the minimums across the country. Pennsylvania is there with California, New Jersey and Florida. If a candidate carried those four states, he or she would be called Mr. or Madame President. Yes, we're in the shallower end, and there are nuances among those states (New Jersey, for instance, requires UM/UIM coverage in this amount, too, but also has a "basic" plan with even lower minimums for low income citizens). But let's dispel the thought that Pennsylvania's current minimums are lagging behind the rest of the country and are therefore presumptively inadequate.

Fourth, we have concerns with how an increase in the minimums would be implemented.

- This will require all auto insurers to get the Insurance Department's approval of new rates. That won't be simple, quick or guaranteed. What happens if an insurer doesn't get a rate approved before the proposed minimums take effect? The consumer would presumably have to find coverage from another insurer – not a result that serves anybody well, especially that consumer.
- Will consumers mandated to buy new levels of coverage have to make all new elections on the various options in the MVFRL? Courts have held that new limits in coverage mean a newly purchased policy, not a renewal, and that new elections – as with full versus limited tort – are required. SB 928 has language that tries to address this, although with the new Supreme Court, it is anybody's guess. And HB 1258 doesn't even have that.

Life goes on at various auto minimum requirements. Pennsylvania's history shows life goes on a little better at the current minimums. At the Insurance Federation, we're perfectionists at heart, with no shortage of suggested improvements big and small to our insurance on laws. We're also mindful of the adage "If it ain't broke, don't fix it" – and we hope you are, too: It should be applied here.