

HOUSE BILL REPORT

HB 1206

As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

Title: An act relating to assisting low-income persons to obtain affordable automobile liability insurance.

Brief Description: Assisting low-income persons to obtain affordable automobile liability insurance.

Sponsors: Representatives Chase, Kirby, Green, Wallace, Dickerson, Haigh, Ormsby, Darneille, Moeller, Santos and Wood.

Brief History:

Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/25/07, 2/27/07 [DPS].

Brief Summary of Substitute Bill

- Creates an auto insurance pool that will sell policies with lower minimum limits of liability for qualified low-income drivers.
- Provides the Insurance Commissioner with the authority to review rates and forms and to adopt rules.

HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Kirby, Chair; Kelley, Vice Chair; Strow, Assistant Ranking Minority Member; Santos and Simpson.

Minority Report: Do not pass. Signed by 3 members: Representatives Roach, Ranking Minority Member; Hurst and Rodne.

Staff: Jon Hedegard (786-7127).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Washington requires automobile drivers to meet financial responsibility requirements. Drivers must have liability insurance with limits of at least:

- \$25,000 of bodily injury or death of one person in any one accident;
- \$50,000 of bodily injury or death of any two persons in any one accident; and
- \$10,000 of injury to or destruction of property of others in any one accident.

Drivers or entities may qualify to self-insure their vehicles if they have 26 or more vehicles. Drivers may also choose to be covered by a certificate of deposit or a liability bond for at least \$60,000. A deposit of collateral can be made with the State Treasurer's office or in a bank account set up for Washington. A bond can be purchased from a surety bond company authorized to do business in Washington.

The Office of the Insurance Commissioner (OIC) oversees the insurance industry in Washington. Insurance policies and rates are submitted to the OIC for approval. The OIC reviews financial issues to ensure solvency of insurers. The OIC reviews market conduct activity to ensure compliance with marketing and claims related issues.

The OIC also oversees the activities of the Washington Automobile Insurance Plan (Plan), a pool which provides insurance to drivers that can't find insurance in the market. These drivers are generally viewed as higher risks and policies are generally more expensive. The risk is shared among insurers writing auto coverage in Washington. The Plan is authorized by statute. The operation details are submitted for approval to the OIC. The Plan is administered by a national management organization and service provider to the insurance industry.

Summary of Substitute Bill:

A low-income auto policy is created for qualifying drivers. The policy has lower limits than the standard minimums. The liability limits of the low-income policy are liability insurance with limits of at least:

- \$10,000 of bodily injury or death of one person in any one accident;
- \$20,000 of bodily injury or death of any two persons in any one accident; and
- \$3,000 of injury to or destruction of property of others in any one accident.

Policies will have a term of one year and can only be renewed if the policyholder meets eligibility requirements and has made timely payments.

To be eligible, a person must not have a household income in excess of 200 percent of the federal poverty level. A person must also qualify under risk standards for eligibility that must be adopted by the OIC by rule. The rules must preclude drivers that are an excessive risk due to fraud, accident history, or felony or misdemeanor convictions under Title 46 RCW. The eligibility criteria should not look back more than three years.

The OIC must approve rates and policy forms. Rates must be sufficient to cover losses and reasonable administration. The OIC may appoint a manager or committee to administer the low-income policy plan.

The OIC has authority to adopt any rules necessary to implement the program.

Substitute Bill Compared to Original Bill:

The eligibility standard is changed from 150 percent to 200 percent of the federal poverty level. A reference is corrected. A section that regards payments sufficient to satisfy the Financial Responsibility Act is modified to account for the new lower limit policies.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) Washington State requires all drivers to carry auto insurance. Not all drivers can afford the mandatory amount of coverage. The result is that many people are viewed as criminals. This bill addresses this situation by creating an affordable product. It is a matter of justice. We need to help those people. The mandatory insurance law was intended to help the general public. It did not address low-income people. There are people who have to choose between food, shelter, and auto insurance. People are being priced off the roads. This bill isn't the total answer but it is a start. This is an important bill. People need help complying with the current law. Not all low-income people can access public transportation. This may be due to where they live or the nature or location of their job. I know one person that pays 10 percent of her fixed income for auto insurance. We would like to see the eligibility standard raised to 200 percent of the federal poverty level. That is a fairly common standard for state programs. Access to a car can be the key to a family-wage job. But even if you have a car, you may not be able to afford the insurance. We offer a program called Working Wheels that provides used cars to low-income people. They still may not be able to pay for the high cost of insuring the vehicles. The availability to drive can change people's lives. Income rises for those who can drive. This enables people to get off state programs. I was provided a car via the Working Wheels program. It changed my life. Since I didn't have a car before that, I didn't have insurance. The lack of a previous insurance history means I was penalized and had to pay higher rates.

(In support with concerns) The low limits are a concern. We've paid for a number of recent claims due to uninsured or underinsured drivers. Coverage limits should be raised in this state, not lowered. If that means that we need to subsidize a risk pool, then the state should do that. We support the intent of the bill but have some concerns. The minimum limits have not changed in this state in 20 years. Originally, Washington had some of the highest limits, Now, Washington's limits are in the middle of the states. There is a percentage of people who choose to not have insurance. Other people can't access public transportation or afford

insurance. We want to help those people. The concept is important and we would like to work on the issues.

(Opposed) We recognize that there are issues in the low-income communities. This bill could have some negative impacts. Insurers have never supported mandatory insurance. Insurers support a free market characterized by willing buyers and willing sellers. Compulsory insurance does not fit with a free market. A percentage of drivers do not get a license or insurance. A liability policy is designed to protect the assets of an insured against risk. People that have few or no assets have little incentive to have insurance. The lower limits in the bill will often be insufficient. That means that people will have to make sure that they have adequate coverage against underinsured drivers. People may believe that they are protected because they think everyone else has insurance but they may not be adequately protected. There is an assigned risk plan for high-risk drivers today. The bill doesn't really address risk. It addresses the income of drivers. A direct subsidy may be a better method. Eliminating the insurance requirement for low-income people is another option. If that happened, insured should address the risk by raising the amount of their uninsured or underinsured coverage. Insurers disagree with compulsory auto coverage. California has a program similar to this and it does not appear to be a particular success. Uninsured drivers have been a problem for decades in this state. If people have higher limits but qualify for a lower limit under the bill, they probably would switch. This is not a complete solution.

Persons Testifying: (In support) Representative Chase, prime sponsor; Tomas Villanueva; Robin Zukoski, Columbia Legal Services; Stephanie Kellner, Port Jobs; Cindy Shiery, Pacific Northwest Ironworkers and Employers Apprenticeship and Training Committee Local 86; and Luis Moscoso, Institute for Washington's Future.

(In support with concerns) William Pickell, American Forest Casualty; and Larry Shannon, Washington State Trial Lawyers Association.

(Opposed) Mel Sorensen, Property Casualty Insurance Association; Mike Kappahn, Farmers Insurance; and Jean Leonard, State Farm.

Persons Signed In To Testify But Not Testifying: None.