

SENATE BILL REPORT

SB 6024

As Reported By Senate Committee On:
Financial Institutions & Insurance, February 27, 2007

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: Senators Franklin, Kauffman, Regala, Shin, Berkey, Marr, Pridemore, Fraser, Rockefeller, Rasmussen, Kohl-Welles, Kastama and Keiser.

Brief History:

Committee Activity: Financial Institutions & Insurance: 2/20/07, 2/27/07 [DP-WM, DNP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin, Hatfield and Prentice.

Minority Report: Do not pass.
Signed by Senators Benton, Ranking Minority Member; Parlette and Schoesler.

Staff: Aaron Gutierrez (786-7448)

Background: Current law requires that all drivers in Washington meet certain financial responsibility requirements. These requirements are in place to make certain that drivers who injure third parties' person or property are able to provide compensation. There are three ways to meet the financial responsibility requirements: (1) liability insurance with adequate limits; (2) a certificate of deposit for at least \$60,000; or (3) a liability bond for at least \$60,000. Fleets of 26 or more vehicles may self-insure.

Nearly all Washington drivers choose to meet the financial responsibility requirement through liability insurance. Liability insurance must have the following coverage limits to meet Washington's driver financial responsibility requirements:

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

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.

Regulation and oversight of the insurance industry is conducted by the Office of the Insurance Commissioner (OIC). The OIC must approve all insurance rates and policies and reviews insurers conduct to ensure compliance with agency rules and state law.

As mandated by statute, the OIC has created the Washington Automobile Insurance Plan. The plan is an assigned risk pool that provides insurance to drivers who cannot otherwise find liability insurance in the market. The drivers who participate in this plan are viewed as high risk by insurers because of their driving records. The plan is overseen by the OIC and is administered by a national management organization and service provider to the insurance industry. All insurers who write automobile liability insurance in Washington are required to participate in this assigned risk pool.

Summary of Bill: A low-income auto liability policy is created for qualifying drivers. Qualified drivers under this bill are permitted to have liability coverage limits that are lower than is required for standard auto liability coverage. The required limits for low-income auto liability policies are:

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

In order to be eligible for a low-income liability policy, a driver must not have a household income that is more than 200 percent of the federal poverty level. Additionally, the driver must satisfy the risk standards for eligibility that are adopted by the OIC. The OIC's risk standards must preclude drivers who present an excessive risk because of fraud, accident history, or driving-related felony or misdemeanor convictions under Title 46. However, the eligibility criteria may only evaluate the past three years.

The policy term for low-income auto liability policies is one year and they must be renewable as long as the policyholder meets the income and risk requirements and has made timely premium payments.

The OIC must approve all 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. Further, the OIC has the authority to adopt any rules necessary to implement the plan.

Coverage for the low income auto liability plan is apportioned equally among insurers who write automobile liability insurance in Washington.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: There are already many uninsured drivers on the road and auto liability premiums continue to rise. Insured drivers have to bear the cost of uninsured drivers. Low wage earners do not have any options when it comes to meeting the financial responsibility required by the state. This bill will help those who are currently

uninsured and reduce the number of uninsured people. A low income auto liability insurance policy may not be a perfect solution to the problem, but at least it is a start. If a driver is struggling to pay for his or her most basic needs, auto insurance is either not an option or a very low priority. When a low income person does not have auto liability insurance, a downward spiral occurs when they receive a ticket for having no insurance or get into an accident. A ticket or an accident may cause them to lose their license or their vehicle, which in turn may make it difficult to earn a living and take care of children. Public transportation is not an option for people living in rural areas or for working parents; these people need to drive. Low wage earners often pay more in monthly payments for insurance than they do for their vehicles. We need to give low income people an opportunity to comply with the law. A similar program in California has much lower premiums than standard auto liability policies have. An inability to have auto liability insurance is a barrier to upward economic mobility.

CON: Low income people have no incentive to buy liability insurance because they do not have any assets to protect; therefore, there is likely to be little interest in this program and it will not reduce the number of uninsureds. Passing this bill would be misleading to the public because it would suggest that the problem has been solved, when it has not. The limits are too low in these policies; they would not even cover a fender bender. Washington should just do away with mandatory liability insurance. Alternative solutions are to not require low income drivers to carry liability insurance or to use state funds to assist drivers in obtaining policies with lower premiums. This bill is worse than nothing because it will make the public cynical. There is no guarantee that just because policies under this program have lower limits that they will be inexpensive. This legislation could encourage low income drivers who currently have standard auto liability policies to drop down to these policies with the lower limits, which is detrimental to people who may be injured by these drivers. There are a lot of drivers who will never buy liability insurance no matter how inexpensive.

Persons Testifying: PRO: Valorie Crout, Associated Ministries of Tacoma-Pierce County; Robin Zukoski, Columbia Legal Services; Susan Crane, Port Jobs; Larry Shannon, Washington State Trial Lawyers Association.

CON: Mel Sorensen, Property Casualty Insurers Association; Mike Kupphahn, Farmers Insurance; Cliff Webster, American Insurance Association.