

STATE EFFORTS TO ADDRESS UNINSURED MOTORISTS

This memorandum addresses approaches various states use to address the problem of uninsured motorists. The first part of this memorandum addresses the severity of the problem and characteristics of uninsured motorists. The second part addresses state responses.

SEVERITY OF THE PROBLEM AND CHARACTERISTICS OF OFFENDERS

According to the Insurance Research Council, approximately 14 percent of drivers are uninsured based upon 1995-97 data. The state with the highest percentage of uninsured drivers for that time period was Colorado with 32 percent. The lowest percentage was Maine with 4 percent. North Dakota ranked 45th among the states, including the District of Columbia, and tied with New York, Nebraska, Wyoming, and Massachusetts. The three states with lower percentages of uninsured motorists were South Dakota, North Carolina, and Maine. For the nine years from 1989-97, the uninsured rate has fluctuated between 13 and 16 percent.

In 1999 Lyn Hunstad, California Department of Insurance, compiled the results of a questionnaire in a report entitled *Characteristics of Uninsured Motorist*. The findings included:

About 10% of those surveyed reported owning an uninsured vehicle. One of the surprising findings was that most of those who owned an uninsured vehicle also owned a vehicle that was insured. These uninsured are called hybrid uninsured and represent 58% of the uninsured in the sample. The remaining 42% were pure uninsured and did not own any insured vehicles.

The uninsured were more likely to have the following characteristics:

Variable:	Uninsured More Likely To Be:
Home Ownership	Renter
Income	Less Than \$20,000
Age	18 to 24
Education	High School or Less
Sex	Male
Ethnicity	Hispanic or Black
Stability	Less Time in Present Home

The survey resulted in 47 different reasons for being uninsured. Most of the reasons for being uninsured fell into two categories--nonuse of vehicle or the cost of the insurance. The majority of the pure uninsured did not insure because of the high cost of

insurance. The majority of the hybrid did not insure because they claimed they did not use the vehicle.

In 2000 the *Journal of Insurance Regulation* in an article entitled "What We Know About Uninsured Motorists and How Well We Know What We Know," found that in general, uninsured motorists are found in highest numbers in metropolitan areas. In general, the rural states in the Northeast and North Central regions have a relatively small population of uninsured motorists. As to the profile of the uninsured motorists, there is general agreement from most sources that male drivers make up the majority of uninsured motorists; however, there is no agreement on the magnitude. According to the article, the insurance industry has argued in several forms that uninsured motorists tend to be involved in more accidents and more severe accidents than insured motorists. However, the reason for this may be that young male motorists make up a substantial fraction of the uninsured motorists. The article went on to list the reasons for uninsured motorists. These reasons include:

- Low socioeconomic status.
- Rigidity of the current method of pricing of insurance services.
- High insurance rates where most uninsured motorists reside.
- Low probability of being caught combined with cost of being caught compared with high insurance cost.
- Unavailability of public transportation.
- Lack of awareness of the existence of mandatory laws.

STATE RESPONSES

Forty-seven states require drivers to carry automobile insurance. The remaining three states--New Hampshire, Tennessee, and Wisconsin--have financial responsibility laws. To enforce these laws, the state agency with authority over motor vehicles and law enforcement must know if a vehicle is insured. There are two ways this information is obtained--proof of insurance by driver or owner and insurer verification of insurance. There are three times when states require proof of insurance:

1. At registration.
2. At time of accident.
3. At all times in vehicle.

Insurer verification takes four forms:

1. The insurer must notify the state agency with authority over motor vehicles of cancellations or nonrenewals
2. The insurer must verify after an accident or arrest.

3. The insurer must verify randomly selected insurance policies upon request.
4. The insurer must submit an entire list of insurance in effect.

Attached as an appendix is a table compiled by the Property Casualty Insurers Association of America which contains this information and penalties on a state-by-state basis.

Insurer verification of insurance through a data base takes two forms--book of business and cancellation reporting programs. An example of a book of business program is Nevada. Nevada law requires every insurer to provide the Department of Motor Vehicles with a monthly record of each policy issued, amended, or terminated in the previous month. The law requires the department to compare the records of current motor vehicle registrations with the records received from insurers and to mail notices to owners of uninsured vehicles. The department must send the owner, by first-class mail, a form about insurance which the owner must return to the department within 20 days. If the department does not receive a response, a second form is sent by certified mail which the owner must return within 15 days. If the owner does not return either form, the information on the form is unverifiable, or the owner admits to not having insurance, the department suspends the vehicle's registration. The owner must pay a reinstatement fee of \$250 to reinstate the registration. Revenue from the reinstatement fee pays for the data base.

Another example of a book of business program is Utah; however, the program is run by a private vendor. The private vendor collects information from the Department of Motor Vehicles and insurers and sends notices to owners of uninsured vehicles and if they do not require insurance, the Department of Motor Vehicles cancels the registration for those vehicles. All registered owners of vehicles pay a \$1 fee per year to fund the program. According to the private vendor, Utah reduced uninsured motorists from 23 to 9.3 percent in approximately four years. In addition, the Utah State Tax Commission reports that the data base may have helped identify 90,000 Utah vehicles that may have been improperly registered in other states. Other states that contract with vendors include Connecticut, Colorado, and New Mexico.

Maine has a cancellation reporting program. The law requires insurers to report the cancellation or termination of mandatory liability coverage on vehicles registered in Maine. The law requires the Bureau of Motor Vehicles to issue a notice to the owner of a vehicle reported canceled or terminated informing the owner that the registration will be suspended if the owner does not provide evidence of new insurance coverage. This evidence must be provided within 30 days. A cancellation reporting program is what North Dakota has for people convicted of driving without liability insurance.

A book of business program within state government allows for law enforcement to access that information as part of a driving record check. If the program is administered by a private vendor, access may not be so convenient. For instance, in Utah the records may be only accessed through the Internet by law enforcement.

Consequences for not having automobile liability insurance include fines, jail time, license or registration revocation, confiscation of license plates, and vehicle impounding. As to the frequency of the use of a penalty:

- 43 states impose fines.
- 22 states revoke or suspend vehicle registrations.
- 21 states revoke or suspend vehicle licenses.
- 7 states confiscate license plates.
- 3 states impound vehicles.

In a 2001 article in the *Journal of Insurance Regulation* entitled "The Uninsured Motorist Problem: An Investigation of the Impact of Enforcement and Penalty Severity on Compliance," the authors found that compulsory insurance laws significantly reduced the uninsured motorist rate. In addition, the higher level of fines for failure to comply with the law helped to reduce the level of noncompliance. However, this did not apply to jail sentences. As to the effectiveness of jail sentences, the article suggested that "while these laws are on the books, it is unlikely that they are actually being enforced and therefore are not effective. Effectiveness could be increased by consistency and uniformity of application."

The article stated that one conclusion in response to the characteristics of uninsured motorists would be for the state to more efficiently use resources by targeting individuals with the characteristics, since the likelihood of noncompliance is higher for these individuals. Another conclusion could be to increase enforcement. The article stated "it is often difficult to ascertain whether penalties exist for noncompliance, what those penalties are, and what the likelihood for getting caught is. One low-cost suggestion from this study is that states need to more fully disclose this information to all drivers." This information may be provided through insurance agents explaining the specific consequences of failing to buy liability insurance. In addition, driver's license testing could focus more on the understanding of compulsory insurance laws.

The article did state "it is important to consider the cost of the insurance and individual's ability to pay in assessing the overall potential for the laws to reduce the uninsured motorist problem."

California has enacted a low-cost automobile insurance program to provide low-cost and lower coverage insurance. The California low-cost automobile insurance program is available only to residents of Los Angeles and San Francisco who meet certain income requirements. For an accident caused by an

insured, the policy provides a maximum of \$10,000 liability for bodily injury or death per person with a maximum of \$20,000 for all persons and a maximum of \$3,000 liability for damage to personal property. The standard California policy is \$15,000 per person and \$30,000 for all persons and a maximum of \$5,000 liability for damages to personal property.

Saskatchewan, Canada, has a unique approach to compulsory insurance. Under the compulsory liability insurance and financial responsibility law, insurance is mandatory and included with the purchase of license plates and certificates of registration. In Saskatchewan a valid license plate is proof of valid insurance.

ATTACH:1

AUTOMOBILE FINANCIAL RESPONSIBILITY LIMITS AND ENFORCEMENT BY STATE

State	Insurance required (2)	Minimum liability limits (3)	Proof of insurance required (1)			Insurer verification of insurance (4)	Penalties for non-compliance (first offense)
			At registration	At time of accident	At all times in vehicle		
AL	BI & PD Liab	20/40/10	Yes	Yes	Yes	None	\$500 fine, license suspension
AK	BI & PD Liab	50/100/25	No	No (5)	Yes	b	Registration suspension/revocation (6)
AZ	BI & PD Liab	15/30/10	No (7)	Yes	Yes	a,b,d	\$250 fine
AR	BI & PD Liab	25/50/25	Yes	No	No	d	\$250 fine; registration suspension, confiscation of plates (6)
CA	BI & PD Liab	15/30/5 (8)	Yes	Yes	Yes	b	\$100 fine; registration suspension
CO	BI & PD Liab	25/50/15	Yes	Yes	Yes	a,d	License suspension, \$500 fine
CT	BI & PD Liab, UM, UIM	20/40/10	Yes	Yes	Yes	a,d	Registration/license suspension/revocation, confiscation of plates, vehicle impoundment, \$110-\$250 fine
DE	BI & PD Liab, PIP	15/30/10	No	Yes	Yes	a,c	\$150 fine; registration suspension, confiscation of plates (6)
DC	BI & PD Liab, UM	25/50/10	Yes	No	No	a,c	\$100 fine or maximum 30 days jail
FL	PD Liab, PIP	10/20/10 (9)	Yes	Yes	Yes	a,d	60-day license revocation, vehicle impoundment for subsequent offense and confiscation of plates in Dade, Broward and Hillsborough counties (6)
GA	BI & PD Liab	25/50/25	Yes	Yes	Yes	a	60-day license suspension, registration

								suspension
HI	BI & PD Liab, PIP	20/40/10	No	Yes	Yes	None		\$1,000 fine
ID	BI & PD Liab	25/50/15	No	Yes	Yes	a,c		\$75 fine (6)
IL	BI & PD Liab, UM	20/40/15	Yes	Yes	Yes	a,c		\$500 fine, 60-day registration suspension (6)
IN	BI & PD Liab	25/50/10	Yes	Yes	No	a,b		90 day license suspension, \$150 reinstatement fee
IA	BI & PD Liab	20/40/15	No	Yes	Yes	a		\$100 fine
KS	BI & PD Liab, PIP, UM	25/50/10	Yes	No	No	d		\$100 fine (6)
KY	BI & PD Liab, PIP	25/50/10	Yes	Yes	Yes	d*		Registration revocation, \$50 fine, up to 90 days in jail (6)
LA	BI & PD Liab	10/20/10	Yes	No (e)	Yes	a,d		\$25 fine, up to \$500 fine, confiscation of plates (6), vehicle impoundment
ME	BI & PD Liab, UM, UIM	50/100/25 (10)	No	Yes	Yes	a		\$100-\$500 fine, 30-day license and registration suspension
MD	BI & PD Liab, PIP (11), UM	20/40/15	Yes	No	No	a,c		\$150 fine (6)
MA	BI & PD Liab, PIP, UM	20/40/5	Yes	No	No	a		\$500 fine (6)
MI	BI & PD Liab, PIP	20/40/10	Yes	No	No	a		\$200 fine (6)
MN	BI & PD Liab, PIP, UM, UIM	30/60/10	No	Yes	Yes	c		License and/or registration revocation for 6 months (6)
MS	BI & PD Liab	25/50/25*	No	Yes	Yes	a		\$500 fine, license and registration suspension
MO	BI & PD Liab, UM	25/50/10	Yes	Yes	Yes	a,c		License and registration revocation (6)
MT	BI & PD Liab	25/50/10	No	Yes	Yes	a		\$250 fine or not more than 10 days in jail (6)
NE	BI & PD Liab	25/50/25	Yes	Yes	Yes	a,d		\$500 fine (6), license and registration suspension
NV	BI & PD Liab	15/30/10	No	Yes	Yes	a,d		\$100 fine (6)
NH	FR only, UM	25/50/25	No	No (5)	No	None		None
NJ	BI & PD	15/30/5	No	Yes	Yes	d		\$300 fine, community

Liab, PIP, (12)
UM

service, 1-year license
suspension, vehicle
impoundment

NM	BI & PD Liab	25/50/10	Yes	No	No	a,c	\$100 fine (6)
NY	BI & PD Liab, PIP, UM	25/50/10 (13)	Yes	Yes	Yes	a,d	1-year license revocation
NC	BI & PD Liab	30/60/25	No	No	No	a,d	60-day registration suspension (6)
ND	BI & PD Liab, PIP, UM	25/50/25	No	No (5)	No	a	\$150 fine, registration revocation, license suspension (6)
OH	BI & PD Liab	12.5/25/7.5	No	Yes	Yes	a	90-day license suspension, \$75 reinstatement fee
OK	BI & PD Liab	25/50/25	Yes	Yes	Yes	a	Less than \$500 fine, less than 6 months jail (6)
OR	BI & PD Liab, PIP, UM	25/50/10	No	Yes	Yes	a,c	License suspension and/or revocation (6)
PA	BI & PD Liab, Med	15/30/5	No	Yes	Yes	a	License and registration suspension, confiscation of plates (6)
RI	BI & PD Liab, UM	25/50/25 (9)	No	No	No	a,c	\$500 fine, confiscation of plates
SC	BI & PD Liab, UM	15/30/10	Yes	Yes	Yes	a,d	Maximum \$200 fine, less than 30 days jail, license and registration suspension (6)
SD	BI & PD Liab, UM	25/50/25	No	Yes	Yes	a	1-year license suspension (6)
TN	FR only	25/50/10 (9)	No	No	Yes (14)	a	\$100 fine
TX	BI & PD Liab	20/40/15	Yes	Yes	**	a	\$75 fine; license and registration suspension (6)
UT	BI & PD Liab, PIP	25/50/15 (9)	No	Yes	Yes	a	\$400 fine; up to \$1,000, license and/or registration loss (6)
VT	BI & PD Liab, UM, UIM	25/50/10	No	Yes	Yes	a	Less than \$100 fine (6)
VA	BI & PD Liab, UM	25/50/20	No	No	No	a,b,c	None
WA	BI & PD Liab	25/50/10	No	No	No	a	\$480 fine
WV	BI & PD Liab, UM	20/40/10	Yes	Yes	Yes	a	90-day license suspension, registration revocation (6)

WI	FR only, UM	25/50/10	No	No	No	a	License and or registration revocation (6)
WY	BI & PD Liab	25/50/20	Yes	Yes	Yes	a	Up to \$750 fine; up to six months in jail

(1) Proof of valid insurance. The form of evidence varies by state and may take the form of an insurance policy, binder, certificate of self-insurance, surety bonds, or certificate of deposit. Many states require insurance identification cards issued by the insurer. Self-certification, where the driver is required to identify the insurer and policy number in writing rather than in person, is not included.

(2) Compulsory Coverages:

BI Liab=Bodily injury liability

PD Liab=Property damage liability

UM=Uninsured motorist

PD=Physical damage

Med=First party (policyholder) medical expenses

UIM=Underinsured motorist

PIP=Personal Injury Protection. Mandatory in no-fault states. Includes medical, rehabilitation, loss of earnings and funeral expenses. In some states PIP includes essential services such as child care.

FR=Financial responsibility only. Insurance not compulsory.

(3) The first two numbers refer to bodily injury liability limits and the third number to property liability. For example, 20/40/10 means coverage up to \$40,000 for all persons injured in an accident, subject to a limit of \$20,000 for one individual, and \$10,000 coverage for property damage.

(4) a. Insurer must notify Department of Motor Vehicles or other state agency of cancellation or nonrenewal.

b. Insurer must verify financial responsibility or insurance after an accident or arrest.

c. Insurer must verify randomly selected insurance policies upon request.

d. Insurers must submit entire list of insurance in effect, which may be compared with registrations at a state agency. Also known as a computer data law.

(5) Insured must provide evidence of insurance at some point after the accident to the Department of Insurance, other state agency, or law enforcement officer. Deadlines vary among the states.

(6) Penalties are provided for in the law but may not be mandatory for first offenses.

(7) Proof of insurance must be presented within 30 days of registration.

(8) Low-cost policy limits for Los Angeles and San Francisco low-income drivers in the California Automobile Assigned Risk Plan are 10/20/3; pilot program effective January 1, 2000 until January 1, 2007.

(9) Instead of policy limits, policyholders can satisfy the requirement with a combined single limit policy. Amounts vary by state.

(10) In addition, policyholders must also carry at least \$1,000 for medical payments.

(11) May be waived for the policyholder but is compulsory for passengers.

(12) Basic policy (optional) limits are 10/10/5. Uninsured and underinsured motorist coverage not available.

(13) In addition, policyholders must have 50/100 for wrongful death coverage.

(14) Although legally defined as financial responsibility, Tennessee's law is similar to a compulsory law because drivers can be fined if stopped by police or after crashes if they cannot show proof of financial responsibility.

*Effective January 1, 2006.

**SB 1670, effective September 1, 2005 requires the Texas Department of Insurance to establish a vehicle insurance verification system.

Source: Property Casualty Insurers Association of America; state departments of insurance and motor vehicles.