

PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 11 Auto Insurance and society

Topics

- Approaches for Compensating Auto Accident Victims
- Auto Insurance for High Risk Drivers
- Cost of Auto Insurance
- Shopping for Auto Insurance

Approaches for Compensating Auto Accident Victims

- Many accident victims are unable to recover damages
 - The negligent driver may be uninsured or underinsured
- States use a number of approaches to protect accident victims from irresponsible or reckless drivers
- A financial responsibility law requires motorists to furnish proof of financial responsibility up to certain minimum dollar limits
 - Proof is required:
 - After an accident involving bodily injury or property damage over a certain amount
 - Upon failure to pay a final judgment resulting from an auto accident
 - Following a conviction for certain offenses, such as DUI
- Evidence of financial responsibility can be provided in several ways:
 - Producing evidence of an auto liability insurance policy with at least certain minimum limits
 - Posting a bond
 - Depositing the amount required by law
 - Showing that the person is a qualified self-insurer
- Financial responsibility laws provide only limited protection against irresponsible motorists
 - There is no guarantee that all accident victim will be paid
 - The victim may not be paid if injured by an uninsured driver, hit-and-run driver, or driver of a stolen car
 - State laws require only minimum liability limits, which are relatively low
- A compulsory insurance law requires motorists to carry at least a minimum amount of liability insurance before the vehicle can be licensed or registered
 - Some argue that the law provides greater protection against uninsured drivers because motorists must provide evidence of financial responsibility before an accident occurs
 - Critics cite: mandatory insurance does not reduce the number of uninsured drivers
 - There is no correlation between compulsory insurance laws and the number of uninsured vehicles on the highway
 - Computer reporting systems to track uninsured motorists have not been effective

- Low-cost auto insurance provides minimum amounts of liability insurance at reduced rates to motorists who cannot afford regular insurance
 - Goal is to reduce the number of uninsured drivers
 - A pilot program in California does not appear to be effective
 - Many drivers still find auto insurance to be too expensive
- Several states have enacted “no pay, no play” laws which prohibit uninsured motorists from suing negligent drivers for noneconomic damages

No-fault Auto Insurance

- No-fault auto insurance is another method for compensating injured accident victims
- About half of the states have no-fault auto insurance laws in effect
 - After an auto accident involving bodily injury, each party collects from his or her own insurer regardless of fault
 - Enacted because of dissatisfaction and defects in the traditional tort liability system
- No-fault plans vary among the states:
 - Under a pure no-fault plan, accident victims cannot sue at all, regardless of the amount of the claim
 - No states have enacted a pure no-fault plan
 - Under a modified no-fault plan, victims have a limited right to sue:
 - In some states, an injured driver may sue if the bodily injury claim exceeds a certain monetary threshold
 - In some states, an injured driver may sue if the bodily injury claim exceeds a verbal threshold, e.g., if the injury involves death, dismemberment, disfigurement, or permanent loss of a bodily member or function
 - An add-on plan pays benefits to an accident victim without regard to fault, and the injured person has the right to sue the negligent driver who caused the accident
 - Not a true no-fault plan
 - Under a choice no-fault plan, motorists can elect to be covered under the state’s no-fault law and pay lower premiums
 - Or, they can retain the right to sue under the tort liability system and pay higher premiums
- No-fault benefits are provided by adding an endorsement to an auto insurance policy
 - Benefits are restricted to the injured person’s economic loss, which includes:
 - Medical expenses
 - Loss of earnings
 - Essential services expenses, e.g., housework
 - Funeral expenses
 - Survivors’ loss benefits, i.e., periodic payments to a surviving spouse and dependent children
 - In some states, insurers must also offer optional no-fault benefits above the prescribed minimums
- The right to sue varies across states with no-fault or add-on plans

- All states permit a lawsuit in the event of a serious injury
- No-fault laws cover only bodily injury and not property damage
 - Except in Michigan
 - Motorists are allowed to sue the negligent driver for property damage
 - Cases are usually small and resolved quickly
- Arguments in support of no-fault laws include:
 - Difficulty in determining fault
 - Inequity in claim payments
 - Serious claims may be underpaid
 - High transactions costs and attorney fees
 - Less than half of all tort dollars reach injured victims
 - Fraudulent and inflated claims
 - When pain and suffering awards are based on a multiple of medical expenses and wage loss, claimants have a powerful incentive to inflate their claims
 - Delay in payments
 - Many claims are not paid promptly because of the time consumed by investigation, negotiation, and waiting for a court date
- Arguments against no-fault laws include:
 - Defects of present system are exaggerated
 - Savings from no-fault are exaggerated
 - Court delays are confined to a few large cities
 - Safe drivers may be penalized by no-fault
 - The rating system may inequitably allocate accident costs to the drivers who are not at fault, thus raising their premiums
 - No-fault provides no payment for pain and suffering
 - The present tort liability system should be improved, not junked
- Some states have repealed their no-fault laws because relatively low monetary thresholds have increased the number of lawsuits
- A study by the Institute for Civil Justice found that no-fault plans:
 - reduce attorney fees and claim processing costs
 - match the compensation received for an injury more closely with the economic loss sustained
 - generally pay benefits more quickly
- The study concluded that savings from a no-fault plan depend on the provisions in the plan

Auto Insurance for High Risk Drivers

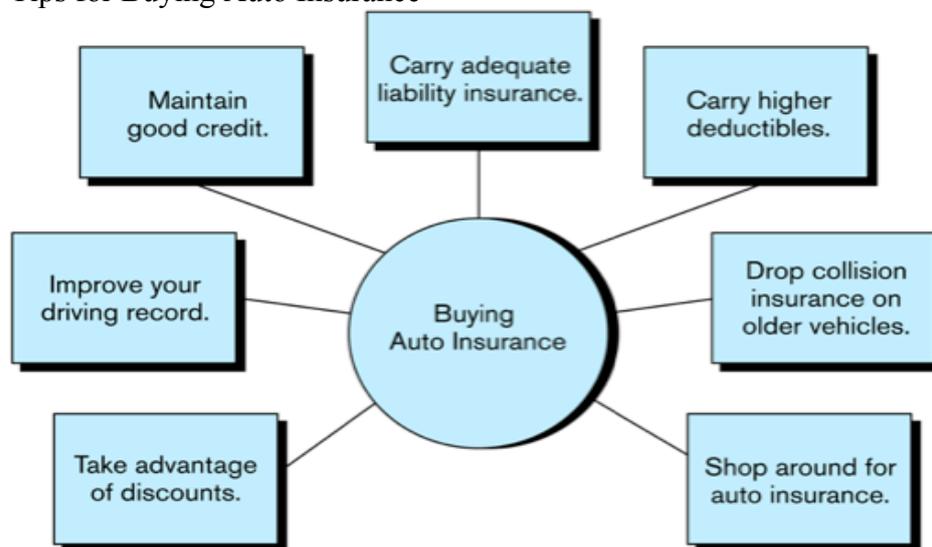
- A few states have established a joint underwriting association (JUA), in which auto insurers in the state participate in providing coverage to high-risk drivers through a common pool
 - Each insurer pays its pro rata share of pool losses and expenses
 - The JUA designs the policies and sets the rates
 - Underwriting losses are proportionately shared by the companies based on premiums written in the state
 - A limited number of insurers are designated as servicing insurers, but all insurers participate in the pool

- A few states have established a reinsurance facility (or pool) for placing high-risk drivers
 - Insurers must accept all applicants
 - If the applicant is considered a high-risk driver, the insurer has the option of placing the driver in the reinsurance pool
 - Underwriting losses are shared by all auto insurers in the state
- The Maryland Automobile Insurance Fund is a state fund that provides insurance to high-risk drivers who have been canceled or refused insurance by private insurers
- Specialty insurers are insurers that specialize in insuring motorists with poor driving records

Cost of Auto Insurance

- Auto insurance rates have increased in recent years due to:
 - Rising medical and higher motor vehicle repair costs
 - Soaring jury awards in liability cases
 - Insurance fraud and abuse
- Insurers use a variety of factors to establish auto insurance premiums, including:
 - Territory
 - Age, gender, and marital status
 - Use of the auto
 - Driver education
 - Number and types of cars
 - A multicar discount is available if the insured owns two or more cars
 - Good student discount
 - Individual driving record
 - Many insurers offer a safe driver plan for drivers with clean records
 - An insurance score, based on an applicant's credit record

Tips for Buying Auto Insurance



End of Chapter.