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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/19

SPONSOR Gallegos, DM LAST UPDATED _____ HB 112

SHORT TITLE Double Vehicle Insurance Minimum Coverage SB _____

ANALYST Chilton

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	Minimal	NFI	NFI	Minimal	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of the Superintendent of Insurance (OSI)

SUMMARY

Synopsis of Bill

House Bill 112 would double each of the components of vehicle insurance required to register a motor vehicle in New Mexico. It would amend Section 66-5-208 NMSA 1978. Section 66-5 is entitled “Licensing of Operators and Chauffeurs; Financial Responsibility; Uninsured Motorists’ Insurance; Identification Cards”, and Section 66-5-208 is headed, “Evidence of financial responsibility; amounts and conditions.”

Vehicle insurance limits are usually expressed as three numbers separated by forward slashes: the current general limits required, \$25K/\$50K/10K means \$25,000 is the limit for a single person injured in a motor vehicle crash, \$50,000 for more than person injured in a given crash, and \$10,000 is the limit for property damage in a crash. The bill would require an increase in the requirement to \$50K/\$100K/\$20K.

FISCAL IMPLICATIONS

OSI and the Motor Vehicles Department would need to amend their protocols for determining whether vehicle insurance policies offered for purchase in New Mexico meet the mandated requirement.

SIGNIFICANT ISSUES

According to a 2018 Wikipedia article, the new required limits would place New Mexico at the very top of states in its requirement; currently, only Maine and Alaska would have the same limits for bodily injury (and no state would be higher), and only 17 states would have a higher limit for property damage. See the attachment for a table of limits in other states.

OSI expands upon this point:

Raising the minimum liability limits will likely result in a significant negative effect on the number of uninsured drivers and the UM/UIM premiums for the NM residents.

New Mexico, with about a 20 percent uninsured rate, is currently in the top 5 of states with the highest rate of uninsured drivers. Raising the minimum required limits will make auto liability insurance unaffordable for an even larger number of NM residents and thus result in more people forgoing liability insurance. This would lead to higher UM/UIM rates for the rest of the population, further subsidizing drivers that violate the mandatory financial responsibility act by driving uninsured.

More significantly, raising the limits of liability will have a direct and substantial impact on the low income residents of NM due to the higher premium rates

associated with increased limits. New Mexico (poverty level 19.0 percent) currently has higher required limits than Louisiana which has a similar poverty level at 19.6 percent with minimum mandatory limits of 15K/30K/25K. Other states like Mississippi (19.9 percent) and Alabama (16.9%) require limits of liability that are similar to our state at 25K/50K/25K. (1)

To elaborate on the comparison with other states, it appears that most states have limits equal to or lower than NM limits. According to the state comparison provided by Property Casualty Insurers Association (PCIA), and included below as Appendix A, only 6 states (Alaska, Maine, Maryland, Minnesota, North Carolina and Texas) have minimum limits higher than NM.

Conversations with industry organizations suggest that the current BI liability limits are appropriate. A PCIA representative quoted a study that found the average hospital costs (related to auto accidents) to be about \$7,500 and that the chance of an underinsured accident is rare (using 2015 Nevada data). Due to the lack of NM-specific data immediately available, we do not have statistics for New Mexico, but it is reasonable to assume they aren't significantly different.

The PD liability limit, on the other hand, may require an update. The recent technological advancements in the automotive industry have made cars and car repairs significantly more expensive - according to Kelley Blue Book, the average price of a new light vehicle in 2018 was about \$35K. The current \$10K limit would likely fall short even after depreciation is factored in. If the PD liability limit is raised to \$25K instead of \$20K the increase in the PD liability component of premium would be only slightly higher: 13 percent as compared to 10% (the impact on total policy premium would be much less).

While it is difficult to provide an estimate of the increase in total policy premium without the full details of each individual policy, the projected increase in the individual premium components is as follows, based on the increased limit factors promulgated by ISO, a rate advisory organization for Personal Auto insurance:

- The bodily injury liability component of premium will increase by 30 percent if minimum limits are raised from 25K/50K to 50K/100K.(2)
- The property damage liability component of premium will increase by 10 percent if minimum limits are raised from \$10K to 20K.(2)
- If the mandatory liability limits increase, the minimum UM/UIM limits would increase likewise. The UM/UIM component of premium would increase by about 40 percent.(2) There may be an additional increase in the UM/UIM component if the number of uninsured drivers increases significantly as a result of the change in mandatory limits.

As an illustrative example, if the premium components on a policy are as follows, the direct increase in the cost of the policy (not including the uncertain effect on UM/UIM premiums due to the increase in the uninsured population) would be 30 percent:

BI Liability - \$50	→ \$50*1.3=\$65
PD Liability - \$40	→ \$40*1.1=\$44
Medical Payments - \$15	→\$15
UM/UIM - \$115	→\$115*1.4=\$161
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Total Cost = \$220	Total New Cost = \$285 or 30% increase

The impact on any given policy may be more or less than illustrated, depending on the coverages selected and the cost of each individual coverage.

(1)2017 data from Census.gov (https://www.census.gov/data-tools/demo/saipe/saipe.html?s_appName=saipe&map_yearSelector=2017&map_geoSelector=aa_c&menu=grid_proxy&s_USStOnly=y&s_year=2017)

(2) Based on the latest approved factors filed by ISO, effective 7/1/2016 for BI/PD Liability and effective 7/1/18 for UM/UIM

ALTERNATIVES proposed by OSI:

- Raising the PD liability limit to \$25K instead of \$20K, while keeping the BI limits the same, will have a minimal marginal impact, would align New Mexico PD limits with other similar states, and would provide a more pronounced effect on the amount of underinsured damages. **OSI recommends this approach.**
- A suggestion has been made to raise the limits gradually over three years, to slow down the impact on consumers and to monitor the effects of the limit progression on the rate of uninsured drivers. Such an approach will impose significant administrative costs on insurers which would eventually be passed down to consumers, further adding to the increase in premiums.

As for monitoring the impact of the limits on uninsured drivers, if the limits are increased steadily over the course of three years, it may not allow enough time to gather and evaluate data, much less take action based on that data. **OSI does not recommend this**

alternative.

- Another alternative may be to change the current tort system altogether. As the OSI highlighted for the Autonomous Vehicle Committee (initiated by the Senate Joint Memorial 3 in 2018), our current tort insurance system is not compatible with the expected eventual transition to self-driving vehicles, and will require an overhaul in the not too distant future. It may be prudent to leave the limits where they are until that time. One possible solution for the reform would be to replace the fault based compensation system with a no-fault system, also known as Personal Injury Protection insurance. Such a system would allow consumers to choose the desired level of protection for themselves, and eliminate the issues related to Uninsured Motorists.
- If an increase to the mandatory minimum limits is deemed necessary, lower limits of \$30K/\$60K/\$20K may be considered.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Occasional motor vehicle crashes would result in damages in excess of the limits required, and thus might not be fully compensated by the insurance covering the person responsible for the crash.

LAC/sb/gb

State [21]	Minimum Insurance Requirements	Non compulsory insurance state
Alabama	25/50/25	
Alaska	50/100/25	
Arizona	15/30/10	Yes, however you will be required to be able to deposit \$40,000 in cash, bonds, or certificate of deposits with the State Treasurer if you do not purchase insurance. ^[22]
Arkansas	25/50/15	
California	15/30/5	
Colorado	25/50/15	
Connecticut	25/50/25[23]	
District of Columbia	10/25/2005	
Delaware	15/30/5	
Florida	0/0/10	
Georgia	25/50/25	
Hawaii	20/40/10	
Idaho	25/50/15[24]	
Illinois	20/40/15[25]	
Indiana	25/50/25[26]	
Iowa	20/40/15	
Kansas	25/50/10	

Kentucky [25/50/25\[27\]](#)

Louisiana 15/30/25

Maine 50/100/25

Maryland [30/60/15 \[28\]](#)

Massachusetts 20/40/5

Michigan 20/40/10

Minnesota 30/60/10

Mississippi 25/50/25 [Yes, however you are required to either post a bond equal to the state minimums or make a cash or security deposit equal to the minimum limits.\[29\]](#)

Missouri 25/50/10

Montana 25/50/10

Nebraska 25/50/25

Nevada [25/50/20\[30\]](#)

New Hampshire N/A (Personal Responsibility Only) [Yes, however you would be held responsible by law to pay for any bodily injuries or property damage in the event of an accident.\[31\]](#)

New Jersey 0/0/5

New Mexico 25/50/10

New York 25/50/10

North Carolina 30/60/25

North Dakota 25/50/25

Ohio 20/50/25

Oklahoma 25/50/25

Oregon 25/50/20

Pennsylvania 15/30/5

Rhode Island 25/50/25

South
Carolina 25/50/25

South Dakota 25/50/25

Tennessee 25/50/10

Texas 30/60/25

Yes, however financial responsibility should then be established through a surety bond or a deposit of \$55,000 with the comptroller or the county judge.[32]

Utah 25/65/15

Vermont 25/50/10

Virginia 25/50/20

Yes, however you will be required to pay \$500 a year to drive uninsured in Virginia. (The fee can be prorated if you want to become insured in a shorter time than a year.) However this fee to the state DMV is NOT insurance; you would be held responsible for any injuries or damage in an accident.[33]

Washington 25/50/10

West Virginia 20/40/10

Wisconsin 25/50/10

Wyoming 25/50/20
