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GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Consumer Protection and Commerce
Thursday, February 2, 2023
2:00 p.m.
State Capitol, Conference Room 329 and Via Videoconference

On the following measure:
H.B. 76, RELATING TO MOTOR VEHICLE INSURANCE

Chair Nakashima and Members of the Committee:

My name is Gordon I. Ito, and I am the Insurance Commissioner of the Department of Commerce and Consumer Affairs' (Department) Insurance Division. The Department offers comments on this bill.

The purpose of this bill is to increase the minimum amounts of liability insurance coverage required for motor vehicle insurance policies.

The Department notes that increasing these minimums may put upwards pressure on the premiums consumers pay for mandatory motor vehicle insurance.

Thank you for the opportunity to testify.

HAWAII INSURERS COUNCIL
A trade association of property and casualty insurance companies

1003 Bishop Street
Honolulu, Hawaii 96813
Telephone (808) 525-5877

Alison H. Ueoka
President

TESTIMONY OF ALISON UEOKA

COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Representative Mark M. Nakashima, Chair
Representative Jackson D. Sayama, Vice Chair

Thursday, February 2, 2023
2:00 p.m.

HB 76

Chair Nakashima, Vice Chair Sayama, and members of the Committee on Consumer Protection & Commerce, my name is Alison Ueoka, President for Hawaii Insurers Council. The Hawaii Insurers Council is a non-profit trade association of property and casualty insurance companies licensed to do business in Hawaii. Member companies underwrite approximately forty percent of all property and casualty insurance premiums in the state.

Hawaii Insurers Council submits comments on HB 76 which increases the minimum liability limits for bodily injury and property damage coverages in Section 431:10C-301. The proposed bodily injury limits would be $100,000 per person and $200,000 per accident and the property damage limit would be $40,000. This will cause a direct increase in costs of these coverages to everyone who purchases a minimum limits policy and therefore, it is regressive. Other coverages which are related may also increase, namely uninsured motorists and underinsured motorists coverages. We note that higher limits are already available today to those who wish to purchase them.

If the Legislature decides to increase minimum statutory limits, we ask that language be inserted requiring the insurance commissioner to mandate a filing by motor vehicle insurers reflecting the increase so that insurers are allowed to charge the appropriate premium prior to the law change taking effect.

We ask that the following language be inserted, “The insurance commissioner shall issue a memo to solicit rate filings from motor vehicle insurers to reflect the law change no later than July 1, 2023. Rate filings shall be due no later than December 1, 2023 and the relevant rate changes shall be effective for new and renewal policies on or after July 1, 2024.” The effective date of the bill should also be appropriately amended to reflect this language.

Thank you for the opportunity to testify.

TESTIMONY OF EVAN OUE ON BEHALF OF THE HAWAII ASSOCIATION FOR JUSTICE (HAJ) REGARDING H.B. NO. 76

Date: Thursday, February 2, 2023
Time: 2:00 PM

Aloha Chair Nakashima and Members of the House Committee on Consumer Protection and Commerce,

My name is Evan Oue and I am presenting this testimony on behalf of the Hawaii Association for Justice (HAJ) regarding H.B. No. 76 relating to Motor Vehicle Insurance.

This measure creates tiered increases in the required minimum automobile insurance coverage. Starting upon approval of the measure, the motor vehicle insurance minimums are increased for: 1) bodily injury liability from $20,000 to $50,000 per person; 2) the aggregate limit for an accident from $40,000 to $100,000; and 3) all property damage or destruction including motor vehicles from $10,000 to $20,000 until December 31, 2026. Commencing in 2027, the motor vehicle insurance minimums are further increased to the following: 1) $100,000 per accident per person; 2) $200,000 in aggregate limit per accident; and 3) $40,000 for property damage. These increased rates more accurately reflect the current high costs of living and medical expenses associated with motor vehicle accidents.

Motor vehicle insurance minimum required policy limits have not been raised in 25 years since the enactment of Act 27, session laws of 1998, which has resulted in more than 50% reduction in consumer protection. In fact, the minimum insurance requirement for bodily injury liability has decreased over the years despite increases in the cost of living.

In 1985, the minimum requirement was $35,000 per person, which in today's dollars would be equal $98, 463. In 1992, it was reduced to $25,000 with no maximum per accident. It remained at $25,000 until it was reduced again in 1998 to $20,000 per person with a $40,000 maximum per accident. During that same time the Consumer Price Index for Hawaii increased more than 50%.

During the current high inflation that we are experiencing nationwide, now is time to raise the minimum requirement to more fairly reflect the changes in the cost of living and provide realistic minimum levels of protection for the public. For instance, medical inflation has dramatically increased over the past 25 years while insurance premiums have remained the same. **Ultimately**, **accident victims and health care providers pay the price for Hawaii's unreasonably low minimum policy limits.** Failing to increase the insurance minimums operates as a tax on tort victims whose medical expenses substantially outweigh the current insurance minimums.

The Insurance Division publishes premium rates for automobile insurance annually. Its current publication lists major insurers offering full coverage, including bodily injury liability, property damage liability, PIP-No Fault, Uninsured Motorist and Underinsured Motorist benefits, ranging from under $300 to $1,000 per year.

GEICO, one of the largest market share leaders, sells full coverage policies (including bodily injury liability, property damage, PIP medical, uninsured motorist, and underinsured motorist) with annual premiums of $309 for Kauai, $383 for Maui, $373 for the Big Island. Allstate, Liberty Mutual and USAA similarly provide full coverage policies in Hawaii starting at under $300 annually. Farmers and State Farm policies start at $334 and $440. The December 2022 rates published by the Insurance Division are attached.

Furthermore, Hawaii has been the nation's most profitable automobile insurance market in the United States for over 25 years. In the mid-1990s insurers claimed that high premiums were caused by excessive claim payments, however, an August 1996 Star Bulletin article revealed that auto insurers were actually making record profits instead. Net profits in 1996 were a staggering 27.5%, up from an already impressive 22% in 1995.

Insurers have made profits in Hawaii that are higher than the national average. The National Association of Insurance Commissioners (NAIC) annually publishes profit/loss data for automobile insurance countrywide. In its report issued in 2021, NAIC data reveals that private automobile insurance underwriting profits in Hawaii for 2020 was 19.6% with a 20.4% return on net worth. In comparison, the national average for underwriting profit was 7.6% with a 10.5% return on net worth. Automobile insurers in Hawaii doubled the national average of underwriting profit and the national average of return.

Hawaii has consistently been the most profitable state for automobile insurers for over 25 years. NAIC data shows net returns on worth for Hawaii auto insurance between 2018-2020 as 16.4%, 11.7%, and 20.4% for an average of 16.6%. In comparison, during the same time period, the nationwide net returns were 7.6%, 6.9% and 10.2% for an average of 8.2%. Thus, over the course of that recent three-year span, Hawaii has nearly doubled the national averages. It is time to re-balance consumer benefits with insurer profits to give consumers more benefits and insurers normal (not exorbitant) profits. There is ample room for insurers to provide additional benefits to Hawaii consumers without raising premiums or at nominal increase.

Hawaii is among only six states that require $20,000 or less. A substantial amount of states require $25,000 or more with some states requiring $30,000 and $50,000. An increase in Hawaii's minimum requirement is appropriate given our high cost of living, affordable insurance rates and civic obligation to provide adequate levels of benefits in exchange for the privilege of driving. Our state has experienced the harsh impacts of inflation after the pandemic and costs of good, property and medical services has gone up substantial in the past couple of years. Specifically, medical bills for accidents of moderate severity routinely exceed $20,000 and often exceed $50,000 for an emergency that involves a trauma designation. The current $20,000 insurance policy limits all too often pays for just a fraction of the damages caused and leaves the victim and sometimes their health care providers responsible for the remaining costs.

Furthermore, recently other jurisdictions have increased their minimum insurance coverage requirements. For example, California has passed legislation commencing in 2025 to increase the amount of liability insurance coverage an owner or operator of a motor vehicle is required to maintain to $30,000 for bodily injury or death of one person, $60,000 for bodily injury or death of all persons, and $15,000 for damage to the property of others as a result of any one accident. The measure further increases the required insurance minimums in 2035 to $50,000 for bodily injury, $100,000 for bodily injury or death of all persons, and $25,000 for property damage in order to accommodate rising costs of goods and medical expenses.

Additionally, Virginia passed a bill increasing the coverage from $25,000 to $50,000 for bodily injury or death of one person in any one accident, $50,000 to $100,000 because of bodily injury or death of two or more persons in any one accident, and $20,000 to $40,000 for property damage.

Lastly, Arizona also passed a measure which increased the coverage from $15,000 to $25,000 for bodily injury or death of one person in any one accident, $30,000 to $50,000 because of bodily injury or death of two or more persons in any one accident, and $10,000 to $15,000 for property damage.

Moreover, data we have collected from other jurisdictions to provide insight on the potential minimal cost increase associated with an increase in the insurance minimums. Since, 2007 nine other states increased their insurance premiums. Of those nine states, five states that increased their minimum insurance requirements saw slight decreases in their insurance premiums the year following the change. For example, in 2013, Ohio increased its insurance from $12,500 to $25,000 for personal liability and saw a slight increase the year of the increase but a subsequent decrease in the year following.

Additionally, the remaining states saw minimal increases in premiums the year of the increases and the subsequent year. For example, in 2011, Ohio increased its personal liability requirements from $20,000 to $30,000 and saw an increase of approximately $7 for the year of the increase and the subsequent year.

Therefore, actual cost of the increase proposed in this measure is minimal in comparison to the substantial public benefit including greater protection and recovery of victims of motor vehicle accidents. Protection of the public should be given greater consideration especially as we are experiencing dramatic increases medical costs during as inflation continues.

Those carrying minimum limits may be assessed rates different. Someone with DUI or speeding tickets and multiple accidents will pay more. Someone with a high-performance sports car may pay more. Someone with both auto and homeowner's insurance with the same company may pay less due to discounts. Someone with an accident-free record may pay less. So, yes, any given policy may be charged more or less. But slight rate increases or even potential decreases in rates in other jurisdictions by auto insurers demonstrates that the actual cost of additional coverage for responsible drivers is small for a substantial increase in benefits.

Driving is a privilege that carries a potential for causing serious injuries. Hawaii was once a leader in providing adequate levels of minimum protection for its citizens. Exorbitant premiums in the 1990s forced multiple reductions in benefits. With insurance now relatively cheap and readily available for the past 25 years, it is time to revisit raising minimum levels to more adequately reflect the dangers associated with cars.

Thank you very much for allowing me to testify on of this measure. HAJ looks forward to working with the legislature on this issue for our state. Please feel free to contact me should you have any questions or desire additional information.

SanHi
GOVERNMENT STRATEGIES
A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 1, 2023

TO: Representative Mark M. Nakashima
Chair, Committee on Consumer Protection & Commerce
Submitted Via Capitol Website

FROM: Matt Tsujimura

RE: **H.B. 76 – Relating to Motor Vehicle Insurance**
Hearing Date: Thursday, February 2, 2023 at 2:00PM
Conference Room: 329

Dear Chair Nakashima, Vice Chair Sayama, and Members of the Committee on Consumer Protection & Commerce:

I am Matt Tsujimura, representing State Farm Mutual Automobile Insurance Company (State Farm). State Farm offers this testimony **in opposition** to H.B. 76, Relating to Motor Vehicle Insurance.

H.B. 76 would increase the minimum required liability coverage limits for motor vehicle insurance policies to $100k/$200k/$40k. Not only would this proposed increase place Hawaii significantly out of step with the majority of states, the proposed increase would make Hawaii's minimum limits the highest in the nation. While State Farm understands the intent of increasing coverage limits is to ensure protection, higher coverage limits can be counterproductive to this goal, and may lead to an affordability problem for consumers, which in turn can often lead to more uninsured drivers. Moreover, uninsured and underinsured motorist coverage limits must be equal to the bodily injury coverage limits, and an additional increase in these limits may result in an increase in premiums.

Increasing coverage limits will have a lasting negative impact on insurance costs. Higher limits lead to a newer and higher floor for recovery; which leads to increased litigation and claims costs; which ultimately results in increased insurance costs.

If this bill passes, State Farm needs additional time to develop and update rates based on the limit increase; create new selection and rejection forms for uninsured and underinsured coverage; prepare and send notice to all policyholders advising of the increased limits and premium changes; and update all systems, forms, and applications.

These changes, which would be necessary should this bill pass, will take time to create, implement, and onboard for all new and current customers. For these reasons, if the committee feels this bill must be passed, we ask that *the effective date of the bill be pushed out to at least January 2025*.

Thank you for the opportunity to present this testimony.

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NAMIC
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Hawaii State Legislature
House Committee on Consumer Protection

February 2, 2023

Submitted electronically

RE: **HB 76, Motor Vehicle Insurance; Mandatory Minimum Coverage- NAMIC's Written Testimony <u>in Opposition</u>**

Thank you for affording the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to the House Committee on Consumer Protection for the public hearing on HB 76.

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 40 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write nearly $225 billion in annual premiums.

Although NAMIC appreciates the stated legislative intent of increasing coverage limits to protect tort victims from suffering unpaid damages that exceed current state mandated auto insurance liability coverage limits, we are concerned that the proposed legislation will have the unintended adverse impact of forcing certain financially challenged consumers out of the liability insurance marketplace; thereby, increasing the number of uninsured motorists on the road. Auto accident tort victims don't benefit from a roadway littered with uninsured motorists.

The proposed legislation would require financially challenged auto insurance consumers to have to purchase liability coverage limits (100/200/40) which are greater than in any other state in the nation. This increase of BI coverage limits by <u>five times the current mandated limit</u> will have an appreciable impact on the cost of insurance coverage for financially struggling insurance consumers. How would such a significant auto insurance cost increase be good for consumers and why are such high coverage limits necessary?

The fact of the matter is that people currently have the option of voluntarily purchasing higher liability insurance coverage limits to address inflationary forces, and individuals with the financial resources to afford liability coverage limits above the minimum state required limits generally purchase higher limits to protect their other financial assets, investments, and legally garnishable wages. Conscientious personal risk managers typically don't purchase the minimum liability coverage limits for their vehicle, so this bill won't really impact their auto insurance coverage limits decision-making. Converdsely, minimum liability coverage limits are generally purchased by people with financial constraints. These people are also the ones most acutely impacted by today's high inflation and the ones likely to be forced into the terrible decision of having to drive without insurance because they can't afford the cost of increased mandatory minimum liability coverage limits. HB 76 will directly harm these financially struggling people by creating greater civil liability exposure for them as a result of them being forced out of the auto insurance marketplace.

Moreover, the proposed legislation will create criminal liability exposure for these unfortunate souls who will be forced to drive without state mandated liability insurance coverage. From a public policy standpoint, the needs of innocent tort victims have to be balanced against the needs of financially challenged auto insurance consumers. If more insurance consumers are forced out of the marketplace by these much higher auto insurance liability limits requirements, innocent tort victims will also inevitably suffer, especially if the tort victim has limited or no UM/UIM coverage to take care of the damages caused by the newly uninsured consumer.

Additionally, the proposed legislation will also have the unintended adverse consequence of increasing the need for and cost of UM/UIM auto insurance coverage; thereby, preventing certain consumer from being able to purchase optional UM/UIM coverage to protect themselves and their property from uninsured or underinsured at-fault motorists.

The unavoidable truth of the matter is that HB 76 will only create more uninsured motorists and a new tier of consumers without UM/UIM coverage protection. In the big scheme of things, the proposed legislation will not only harm the people it intends to help, but it will harm a whole new group of financially struggling consumers.

For the aforementioned reasons, NAMIC respectfully requests that the members of the House Committee on Consumer Protection **VOTE NO on HB 76.**

Thank you for your time and consideration. Please feel free to contact me at 303.907.0587 or at crataj@namic.org, if you would like to discuss NAMIC's written testimony.

Respectfully,

Christian John Rataj, Esq.
NAMIC Senior Regional Vice President
State Government Affairs, Western Region

- Government Employees Insurance Company
- GEICO General Insurance Company
- GEICO Indemnity Company
- GEICO Casualty Company

TIMOTHY M. DAYTON, CPCU, GENERAL MANAGER ALASKA & HAWAII
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COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Rep. Mark M. Nakashima, Chair Rep. Jackson D. Sayama, Vice Chair

HB 76, Relating to Insurance
Thursday February 2, 2023
Room 329

Chair Nakashima, Vice Chair Samaya and Members of the House CP&C:

My name is Timothy M. Dayton, General Manager of GEICO; GEICO provides automobile insurance for 174,000 Hawaii households. **GEICO strongly opposes HB 76.**

The current minimum financial responsibility limits ($20K/$40K/$10K) have benefited Hawaii drivers greatly by providing premium rates that have been very affordable. In fact, depending on who a consumer chooses to insure with, the premium rates in Hawaii have been among the very lowest of all states. Today, many Hawaii residents are faced with a highly inflationary economic struggle. The very reasons advanced for increasing the mandatory insurance coverage limits and therefore the cost to comply with the Law are also reasons to maintain the status quo – affordable insurance that allows most to afford it. Although the current inflation is broad based, the primary costs for motor vehicle insurers are at the highest end: medical treatment and most notably the cost of vehicle repair and replacement. As a consequence, insurers are already raising rates in Hawaii and countrywide. Increasing the minimum limits will only exacerbate the challenge for many Hawaii drivers to continue to comply with mandatory insurance requirements. This proposal will increase the mandatory minimum limits to be 5 times (for injury) and 4 times (for property) compared to what they are currently. This is far in excess of an inflationary increase. The Bill fails to disclose that this change will cause economic hardship for many and will also result in a substantial increase in the number of uninsured vehicles. In addition to raising the cost for Bodily Injury Liability and Property Damage Liability, it will also increase the premium rates for Uninsured Motorists and Under Insured Motorists Coverages. The bill states that the current requirements act as a tax on tort victims throughout the State but offers no figures to justify that assertion. If a negligent driver has insufficient liability coverage, by far the most common outcome is that the victim's own insurance picks up the shortfall through Under Insured Motorists Bodily Injury Coverage and/or Collision Coverage.

Raising the minimum limits of coverage and the resulting higher premium charges for the new minimum required limits is a public policy question for the Legislature. However, a raise of the magnitude proposed in HB 76 will cause a massive disruption. If an increase is deemed appropriate, other Bills propose increases that will be much less of a hardship but are still substantial by proposing an increase 25% more than current minimum limits requirements. Finally, since insurers would have to refile rates with the Insurance Division it would be impossible to take effect upon approval.

GEICO respectfully requests that the **Committee hold HB 76** and allow any discussion on this important public policy to continue using a more moderate increase proposal.

Thank you for the opportunity to submit this testimony.

Sincerely,

Timothy M. Dayton, CPCU