
Sneed Law Firm, LLC

Memorandum

To: The Honorable Jeff Longbine, Chair
Special Committee on Financial Institutions and Insurance

From: William W. Sneed, Legislative Counsel,
The State Farm Insurance Companies

Date: October 11, 2017

RE: HB 2014

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for the State Farm Insurance Companies ("State Farm"). State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. We appear today to provide testimony for your review of 2017 HB 2104.

Several of my colleagues will be addressing the issue of increased limits but it is my client's position that financial responsibility laws and the appropriate levels requires the legislature to balance fair limits for the state but keeping in mind that if the minimums become too high, they become counterproductive. They aggravate problems of insurance affordability for some drivers, and cause more uninsured drivers to be on the road. Remember these minimum limits are the FLOOR and the majority of Kansans purchase limits exceeding the statutory requirement.

I. Uninsured Motorist Coverage

Uninsured motorist coverage (UM) was developed in the mid-1950s. It was designed as an alternative to compulsory liability insurance so that financially responsible persons could protect themselves from injuries caused by uninsured drivers. As states began to require UM, some made it mandatory on all automobile liability insurance policies, while other states required insurers to offer UM subject to a right of rejection by the named insured. UM is a mandatory coverage in approximately 20 states.

Kansas, like most states, UM is available in limits equal to the limits of the bodily injury liability coverage of the underlying policy, subject to a maximum

II. Underinsured Motorist Coverage

When insurers began offering higher limits of UM, there were situations where an insured carrying high limits of UM would be in a more favorable position being injured by an uninsured motorist than by a motorist carrying liability coverage with limits equal to the state's minimum financial responsibility limits. Because of this unanticipated anomaly, underinsured motor vehicle coverage (UIM) was created. UIM is designed to protect the insured when the at-fault driver has liability coverage with limits less than the insured's underinsured motorist coverage limits. There are three different types of underinsured motor vehicle coverages, as follows:

A. Underinsured Motor Vehicle Coverage on a "Difference In Limits" Basis Without Modification

The insured must be legally entitled to collect damages for bodily injury from the owner or driver of an "underinsured motor vehicle." An "underinsured motor vehicle" is a vehicle with insurance, but the limits of liability coverage on that vehicle are less than the insured's UIM limits. The insurer pays the difference between the insured's UIM limits and the limits of liability on the vehicle of the at-fault driver, but the insured can never collect more than the amount of his or her damages.

B. Stacking

Legislative representatives should be aware that "stacking," or aggregation of limits, increases UM/UIM costs by as much as 30 percent. In addition, stacking is fundamentally unfair. For example, an individual owns three cars and elects to purchase coverage on only one car. Following an accident, coverage would apply to any one of the individual's owned cars. Another scenario is when the individual has several insured cars, the limits that apply to each car would be added together to produce a higher limit. The stacking system unfairly burdens the individual owning one car by subsidizing the insurance cost of those owning more than one car. Finally, State Farm believes underinsured motor vehicle coverage, if required by statute, should be on a modified difference-in-limits basis rather than a strict difference-in-limits basis to ensure that when other injured parties are involved, and the liability insurance limits from the tortfeasor have been reduced to an amount that is less than our insured's UIM limits, the insured is still able to recover an amount up to the UIM limits.

The concept of "stacking" was fiercely debated at the time of the enactment of our no-fault law. The Kansas legislature rejected the idea inasmuch if insureds wish more coverage, the appropriate mechanism is to purchase more direct coverage, and not through UIM.

Finally the argument that the insured is not getting what he or she paid for is false and misleading. UIM is priced on the "difference in limits" basis. By doing so it keeps the cost of UIM relatively low. Since Kansas

enjoys one of the lowest rates of uninsured we would contend that the market place is working and there is no need to make any changes.

I am happy to answer questions at the appropriate time.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Will W Sneed". The signature is fluid and cursive, with the first and last names being more prominent.

William W. Sneed