PCI

NEVADA MOTOR VEHICLE INSURANCE: ANALYZING THE POTENTIAL COST IMPACT OF RAISING THE FINANCIAL RESPONSIBILITY LIMITS

This PCI analysis examines the potential impact of a bill under consideration in Nevada that would increase the motor vehicle insurance financial responsibility (F.R.) limits for bodily injury/property damage from 15/30/10 to 25/50/20. This analysis will demonstrate that raising limits is not only unnecessary, but could also negatively impact policyholders.

Raising the F.R. limits could increase premiums by a minimum of nearly 9 percent for 3 in 10 Nevada drivers

- Drivers who purchase minimum limits policies usually do so because it is what they can afford, so those most impacted by a proposed increase in F.R. limits are typically those with lower incomes and assets.

- A significant percentage of Nevada drivers currently carry minimum limit policies. Based on a 2012 study[1], it is estimated to be 31.0% of all insured drivers.

- Historical rating plans suggest that if F.R. limits had been raised to 25/50/20 last year, rates would have increased anywhere from 8.8% up to 32.1% for those carrying minimum limits.

An increase in F.R. limits could lead to an increase in the number of uninsured drivers on the road in Nevada

- A PCI[2] analysis found that there is a positive correlation between average liability premiums and the rate of uninsured drivers. This signals that an increase in F.R. limits could lead to a higher proportion of uninsured drivers.

- Based on a 2014 study[3], Nevada has the 23rd highest uninsured ratio in the country. An increase in F.R. limits could push it higher up the ranks.

Raising the F.R. limits is unnecessary because the vast majority of auto injury claims are settled for less than the policy limits

- Historical data[4] shows the average BI claim in 2012 was under the statutory minimum limits.

- Data[5] suggests that the chance of an underinsured accident is rare. In any given year, only 1 in 1000 drivers would be in an accident where their BI limits are insufficient to cover all damages.

Nevada's premiums are already high, focusing on reducing the number of accidents and their costs are better ways to protect consumers

- According to a 2014 NAIC report[6], Nevada had the 8th highest average liability premiums. **An increase in minimum limits could push Nevada further up the ranks.**

- **Any proposal to raise F.R. limits could raise prices for insurance covering more than 330,000 passenger cars[7] in the state.**

- In conclusion, it is unnecessary and impractical to raise F.R. limits in Nevada. If the intent of the proposed bill is to reflect today's reality in terms of costs, then Nevada's F.R. limits should remain as they are. Consumers can thus continue to have greater options in their auto insurance and at more affordable prices. Any proposal to raise the F.R. limits should be defeated – **keeping costs down for Nevada drivers should be the most significant consideration.**

Sources

1) *2012 Insurance Research Council - Auto Injury Data*
2) *Using 2014 NAIC Auto Insurance Database Report 2014 and 2014 Insurance Research Council - Uninsured Motorists*
3) *2014 Insurance Research Council - Uninsured Motorists*
4) *2014 Insurance Research Council – Auto Injury Insurance Claims*
5) *2016 Q2 ISS Fast Track 4 quarter average BI frequency X (1 – Percent of underinsured accidents [92.2%]) X (FHA Highway Statistics 2015 NV Registered Vehicles/FHA Highway Statistics 2015 NV Licensed Drivers)*
6) *2014 NAIC Auto Insurance Database Report*
7) *FHA's Highway Statistics 2015, multiplied by 31.0%*