

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Dick Bond at 9:11 a.m. on March 7, 1996 in Room 529-S of the Capitol.

Members present were: Senator Clark, Senator Corbin, Senator Emert, Senator Lee, Senator Petty, Senator Praeger, Senator Steffes

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: George Schuler, Paine Webber, Inc.
Betty McBride, Director of Vehicles, KS Department of Revenue
John Smith, Drivers' License Division, KS Dept. of Revenue

Others attending: See attached list

Senator Corbin made a motion to approve the minutes of the meeting of March 6 as submitted; Senator Lee seconded the motion. The motion carried.

The chairman opened the hearing on **HB 2843**, relating to transfer on death (TOD) securities. Representative JoAnn Pottorff introduced George Schuler of Paine Webber, who presented the testimony originally presented in House FI&I by Bernard E. Nichols. (Attachment #1) Chairman Bond reminded the committee that this issue had been brought before the committee in the past and that this bill amends one section of the Uniform Transfer on Death Security Registration Act to define the term "person" to mean an individual, a corporation, a partnership, an association or an organization. In response to Senator Lee's request for clarification, Chairman Bond responded that the bill defines to whom securities may be transferred, not who may transfer securities. Following discussion regarding whether or not this bill would allow inheritance tax to be by-passed and how this situation could be avoided, the hearing was closed.

Senator Clark made a motion to recommend **HB 2843** favorably. Senator Praeger seconded the motion. The motion carried.

The hearing was opened on **HB 2691**, relating to motor vehicles and proof of liability insurance. Betty McBride, Director of Vehicles, presented the report of a cooperative investigation by the Department of Administration, Insurance Department, and the Department of Revenue relating to the development of an automobile liability insurance verification system. (Attachment #2)

John Smith, Drivers' License Division, explained the contents of this bill, which is intended to streamline the enforcement activities which address the problem of uninsured motorists in Kansas. (Attachment #3)

There were no further conferees; the hearing on **HB 2691** was closed. Senator Praeger made a motion, seconded by Senator Petty to recommend this bill favorably. The motion carried.

The committee adjourned at 9:47 a.m. The next meeting is scheduled for March 12, 1996.

Post-it Fax Note 7672

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February 14, 1996

To: Committee Members
House Bill #2843

From: Bernard E. Nichols, Senior Vice President-Investments
PaineWebber Inc. - 100 N. Broadway - Wichita, Ks 67202

Thank you for the opportunity to address this committee. I wish to introduce Ruth A. Cramer - 8610 Huntington - Wichita, Ks 67206, a client who has power of attorney for an elderly aunt.

August 9, 1995 Mrs. Cramer directed PaineWebber in writing to register securities valued more than on hundreds thousand dollars (\$100,000), in her aunt's name TOD Kansas University Endowment Association.

We thought this type of registration permitted per Chapter 44 Senate Bill No 239 section 5. However the transfer agent, Boston EquiServe - 150 Royall Street - Canton, MA 02021, refused our request stating that "A transfer on death account can only be registered to an individual, not an institution or foundation".

By rejecting our request, I assume the transfer agent made their interpretation from Section 1.(a) "Beneficiary form" means a registration of a security which identifies the present owner of the security and the intention of the owner regarding the person who will become the owner of the security upon the death of the owner.

I urge you to approve:

(b) "Person means an individual, a corporation, a partnership, an association, or an organization"

Your enactment should allow transfer agents to transfer securities to charities upon the death of the owner. This should be of great benefit to charities based in Kansas.

Senate 7/41
3/7/96
Attachment #1

Betty McBride, Director of Vehicles
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Division of Vehicles

MEMORANDUM

TO: The Honorable Senator Richard Bond
Chairman, Financial Institutions & Insurance Comm.

FROM: Betty McBride
Director of Vehicles *Betty McBride*

DATE: March 7, 1996

RE: Automobile Liability Insurance Verification System

This report is in response to your letter requesting a cooperative investigation by the Departments of Administration, Insurance, and Revenue regarding the development of an automobile liability insurance verification system. At issue is the feasibility of such a system to identify and reduce the number of uninsured Kansas motorists.

The Department of Revenue has coordinated this effort, working closely with the Department of Insurance and representatives of the insurance industry in Kansas. Four options were considered as systems solutions with programming costs ranging from \$55,300 to \$16,100, not including telecommunications and annual processing costs. These options are listed below:

Option 1: Comprehensive insurance system interfacing with KDLS and VIPS

This option would contain a master file of current statewide policy information, which is updated by the insurance companies on a regular basis. Upon application for a drivers license, the system would be checked, and without current insurance a drivers license would not be issued. Vehicle registration would also be contingent upon current insurance.

Critical to the development and success of a comprehensive system is a unique identifier that can match the data between systems. It is not feasible to use name, address, and DOB because a person may not have this information in identical format in each of the different systems. SSN is the obvious choice, and while KDLS does have the ability to capture SSN and some drivers have chosen to use their SSN, it is not mandatory. Also, VIPS does not currently capture SSN. A statute change would have to be made to mandate SSN be supplied for drivers license and vehicle registration purposes. Such a proposal would be strongly opposed by the general public.

Information Systems has estimated the start-up costs for this option of be \$55,300, not including telecommunications and annual processing costs.

*Senate 7/41
3/7/96
Attachment #2*

Option 2: Comprehensive insurance system interfacing with VIPS

It was suggested that a match between VIPS and insurance company data could be run using the vehicle identification number (VIN). Vehicle registration would be contingent upon current insurance. While in theory this may sound feasible, use of the VIN as the match criteria was a concern, due to the length of the number. It is likely there would be a high error rate due to the inability to match VINs, creating a large manual workload, unable to be absorbed with current staff. IS has estimated the cost to develop this system at \$38,400.

Option 3: Cancellation system interfacing with KDLS & VIPS

In this scenario, cancellation and new policy information only would be transmitted. A lapse in coverage would cause a license suspension and vehicle registration revocation. This system would be dependent upon the capture and use of the SSN/FEIN to link KDLS and VIPS. The estimated IS start-up cost is \$28,400.

Option 4: Cancellation system interfacing with VIPS

Cancellation and new policy information only would be transmitted. A lapse in coverage would cause a revocation of the vehicle registration. This system would be dependent upon the accurate capture of the VIN. The estimated IS start-up cost is \$16,100.

It is apparent in each of the options that the key to a successful system is a unique identifying number to cross match data between driver license, vehicle registration, and insurance industry records. This is also a major obstacle, because one does not currently exist. While SSN seems a likely choice, it is not mandated for either licensing or registration purposes, and is also not required by the insurance industry. As stated earlier, a statute change would be needed.

Insurance Industry

The Department of Insurance coordinated a meeting with industry representatives to hear their suggestions for possible solutions. Bill Sneed with State Farm served as spokesperson for the group. He stated that while the industry was not necessarily opposed to the idea of a verification system, and are willing to work with the State, the real issue in their opinion is enforcement. Without adequate law enforcement of the existing insurance statutes, a new computer system alone is not the answer. Also of great concern is the adverse impact a mandated computer system would place on small independent agents.

Information was presented at the meeting which concluded that the uninsured motorist problem in Kansas is not critical. Specifically, the report stated:

- Kansas' uninsured motorist population is very small compared to other states. Based on NAI statistics, it ranks the 5th lowest out of 47 jurisdictions for which information is available. The uninsured motorist population is approximately one-third the size of the national average.
- Kansas has very favorable uninsured motorist claim frequency experience compared to other states with compulsory liability insurance laws and the nation as a whole. The trend in the rate of claims incurred in Kansas is almost flat over the five year period reviewed. Claim frequency for other states has risen substantially.
- Auto insurers are incurring very little lost dollars for uninsured motorist coverage in Kansas, as its uninsured motorist loss cost is extremely small compared to other states.

A copy of this report is attached (Attachment 1). Also discussed at this meeting were other state efforts to establish a similar system. Virginia, Utah, & New York have attempted to establish a system, but with little or no success. They have been plagued with high implementation costs, high error rates, and little or no effect on lowering the uninsured motorist rate.

7/4/96
3/7/96
2-2

Other Concerns

The Department is concerned with the possibility of a high error rate if a system is implemented due to records that don't match up when using either SSN or VIN. Errors would have to be handled and researched manually, creating a great workload for the Division, which could not be absorbed with current staffing.

Summary

In summary, the problem of uninsured motorists is always a serious problem; however, in Kansas it appears to be a small percentage of the driving population. The challenge in trying to reduce it even further is one of cost and method, realizing that the problem will never completely be eliminated. A solution will be contingent upon cooperation from the insurance industry, and without a unique identifier to tie the different computer systems together, a systems solution is not possible. It is the general consensus of the group that a key factor is increased enforcement, and short of impounding the vehicle, an uninsured motorist will continue to drive without a valid license or vehicle registration.

7/41
3/7/96
2-3

**KANSAS VS. OTHER STATES:
UNINSURED MOTORIST INSURANCE EXPERIENCE**

This document has been prepared to offer statistical evidence that Kansas' uninsured motorist population is not as severe as those in other states, and that its uninsured motorist loss experience is quite favorable compared to other states. The source of the figures shown is the NAI database, representing about 47% of the personal automobile premium volume. The tables shown compare Kansas to all states or to various states with compulsory liability insurance laws. Kansas, too, has a compulsory law that requires drivers to purchase liability insurance.

I. KANSAS HAS A VERY LOW U.M. POPULATION; IN FACT, IT IS MORE FAVORABLE THAN MOST OTHER STATES

Table I sets forth individual state ratios of uninsured motorist (U.M.) claim frequency to bodily injury liability (B.I.) claim frequency, reflecting the latest available experience (1992) from NAI. These ratios provide a fairly good indication of the percentage of accidents involving uninsured motorists and may, therefore, be used as a proxy to measure the extent of the uninsured motorist problem. California, New York, Massachusetts and South Carolina are not listed because the U.M. and B.I. data in California is not comparable to each other, and B.I. data for New York is not readily accessible. In addition, NAI does not collect automobile insurance statistics for the last two states.

Of the forty-seven jurisdictions shown below, Kansas ranks #43, with a U.M.-to-B.I. claim frequency ratio of 7.7%. In other words, there are 42 states, including the District of Columbia, whose uninsured motorist population is greater than Kansas. Kansas' U.M. population is much lower than the nation as a whole (about 20%). The vast majority of people living in this state already have liability insurance.

714
3/7/96
2-4

TABLE I
Estimated Uninsured Motorist Population
and State Ranking

<u>Rank</u>	<u>State</u>	<u>1992 Ratio</u> <u>of UM-to-BI</u> <u>Claim Frequency</u>	<u>Rank</u>	<u>State</u>	<u>1992 Ratio</u> <u>of UM-to-BI</u> <u>Claim Frequency</u>
5	Alabama	28.4%	31	Montana	10.5%
7	Alaska	23.1	44	Nebraska	7.1
21	Arizona	14.3	14	Nevada	16.5
34	Arkansas	10.4	38	New Hampshire	9.5
1	Colorado	34.8	41	New Jersey	8.9
19	Connecticut	14.4	4	New Mexico	30.1
13	Delaware	16.7	46	North Carolina	4.6
10	Dist. of Col.	19.8	42	North Dakota	7.7
26	Florida	12.1	18	Ohio	15.3
20	Georgia	14.3	6	Oklahoma	25.0
35	Hawaii	10.2	12	Oregon	17.4
40	Idaho	9.1	28	Pennsylvania	11.4
30	Illinois	10.6	2	Rhode Island	33.7
16	Indiana	16.0	45	South Dakota	5.6
33	Iowa	10.4	9	Tennessee	20.7
43	Kansas	7.7	8	Texas	21.2
23	Kentucky	13.4	32	Utah	10.5
22	Louisiana	13.5	39	Vermont	9.5
47	Maine	4.2	17	Virginia	15.5
25	Maryland	12.5	11	Washington	19.6
27	Michigan	11.9	37	West Virginia	9.6
15	Minnesota	16.3	29	Wisconsin	10.6
3	Mississippi	32.1	36	Wyoming	10.1
24	Missouri	13.1		Countrywide	20.4

Source: NAI

II. UNINSURED MOTORIST CLAIM FREQUENCY EXPERIENCE IN KANSAS IS FAVORABLE COMPARED TO OTHER STATES

A more in-depth look at uninsured motorist loss experience is shown in Table II. Shown here are trends in uninsured and underinsured motorists (U.M./U.I.M.) claim frequency of Kansas versus various states whose compulsory liability insurance laws became effective sometime between 1983 and 1985 and the nation as a whole. This period was chosen because of the ready availability of trend data from 1983 to 1987. Although claim frequencies involving uninsured motorists still continue to rise for the most part, Kansas' claim frequency is very low compared

7/1/91
3/7/96
2-5

to other compulsory insurance states and the countrywide average. Kansas' relatively low frequency demonstrates that its uninsured motorist problem is not that severe, since only 5 claims out of 10,000 insured vehicles were incurred in the late 1980s. Certainly, it is less of a problem than in the eight compulsory states shown below.

TABLE II
Trends in U.M./U.I.M. Claim Frequency
(Per 10,000 Ins. Vehicles)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987*</u>
Alaska	22	16	31	38	45
Arizona	23	25	29	31	33
D.C.	66	131	95	89	107
Indiana	26	26	37	48	42
Kansas	3	4	5	5	5
New Mexico	46	48	51	60	64
Ohio	14	13	15	16	17
Vermont	4	6	24	92	88
Wyoming	4	5	6	6	5
Countrywide	21	22	27	30	29

* Data for 1987 is evaluated as of 15 months only, whereas data for all previous years is evaluated as of 27 months. Hence, claim frequency figures for 1987 are most likely understated.

Source: NAI

III. UNINSURED MOTORIST LOSS COST EXPERIENCE IN MANY COMPULSORY STATES IS WORSE THAN KANSAS

Presented in Table III is the trend in U.M. loss costs for bodily injury coverage for Kansas compared to selected states having a mandatory requirement. The period shown is 1990 through 1992. The loss cost is the combination of the claim frequency and average claim cost; it represents the average incurred loss per U.M.-insured vehicle. Similar to the comparison of claim frequency experience for U.M./U.I.M., Kansas has extremely low U.M. (B.I.) loss costs relative to other compulsory states. This further indicates that the uninsured motorist population in Kansas does not create a critical problem in terms of insurance losses.

7/14/96
3/7/96
2-6

TABLE III
Kansas vs. Compulsory States
U.M. (Bodily Injury) Loss Cost Experience

	<u>1990</u>	<u>1991</u>	<u>1992*</u>
Kansas	\$ 2.73	\$ 6.13	\$ 4.12
Arizona	\$31.22	\$31.51	\$20.33
Connecticut	32.10	34.95	33.50
Delaware	19.82	20.11	18.50
Dist. of Col.	38.78	47.50	40.76
Louisiana	27.22	28.56	24.36
Nevada	30.13	32.11	25.96
New Mexico	28.05	28.63	29.00
Oklahoma	21.45	26.34	25.55
Pennsylvania	22.56	18.52	12.56

* Data for 1992 is evaluated as of 15 months only, whereas data for all previous years is evaluated as of 27 months. Hence, loss cost figures for 1992 are most likely understated.

Source: NAI

IV. CONCLUSION

In conclusion, there is relatively little uninsured motorist problem in Kansas. Its uninsured motorist population is one of the lowest in the nation, almost a third of the countrywide average. Very few uninsured motorist claims are incurred by residents of this state, compared to other states with a compulsory liability law. Moreover, the average U.M. loss amount which insurance companies incur per insured vehicle is significantly lower than other states.

7141
3/7/96
2-7

STATE OF KANSAS

Bill Graves, Governor

DEPARTMENT OF REVENUE

John D. LaFaver, Secretary

Betty McBride, Director of Vehicles
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Division of Vehicles

Page 2 line 4: Reduces from 20 to 10 days that a person has to demonstrate to the court evidence of insurance when cited for no insurance.

Page 2 line 11: Adds the make and year of vehicle which must be on the evidence of insurance.

Page 3 line 39: Reduces from 20 to 10 days for a person to produce evidence of insurance to the court after being cited for no insurance.

Page 5 lines 18 thru 36: Changes from "suspension" to "revocation" of a vehicle tag. Retains suspension for driver license.

Page 6 line 13: Adds the word "revocation".

Page 6 line 19: Retains the original language.

Page 6 lines 24 and 25: Changes "suspension" to a "revocation".

Page 8 lines 1 and 2: Changes from three years to one year the period of time an insurance filing must be kept on file with the division.

Page 8 lines 5 thru 29: Deletes description of convictions for which an insurance filing is required and references the statute in which those convictions are listed.

Page 8 lines 36 thru 42: Clarifies when an insurance company must notify the division of an insurance cancellation.

Page 9 line 18: Adds the word "revoked".

Page 9 lines 20 thru 43: Reduces from 30 days to 10 days the time a person has to request an administration hearing. Eliminates reason for not being insured. Adds the word "revocation" and "revoked" and deletes the word "suspension" for vehicle registrations.

Page 10 line 6: Changes "suspended" to "revoked" for vehicle registration.

Page 10 lines 24 thru 28: Changes failure to maintain continuous liability coverage from a Class B misdemeanor to a Class A misdemeanor.

*Senate 7/41
3/7/96
Attachment # 3*