*Offices of Research and Education Accountability*

Comptroller of the Treasury
JOHN G. MORGAN

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# An Analysis of Tennessee's Motor Vehicle Liability Insurance Limits

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*OREA Briefing Paper*

# *An Analysis of Tennesee's Motor Vehicle Liability Insurance Limits*

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## *Issue Overview*

**Are Tennessee's requirements for motor vehicle insurance coverage sufficient, or should the minimum requirement be increased to provide adequate insurance coverage and financial protection for Tennessee motorists?**

**Given current circumstances, an increase does not appear necessary**. Tennessee's limits are comparable to or greater than most other states'. Despite increases in the cost of health care and motor vehicles since the limits were established in 1989, the limited information available indicates that the vast majority of claims appear to be well within the minimum limits. Increasing the limits would increase the cost of insurance especially for higher risk drivers, who already pay much higher rates. Increased costs could result in an even higher uninsured motorist rate in Tennessee (21.2 percent in 2004), which is the sixth highest in the nation. Although not within the scope of this study, the high rate of uninsured motorists in Tennessee indicates that additional action may be needed to require motorists in Tennessee to be financially responsible.

### Background

This study is in response to Senate Joint Resolution 590 (2006), which directed the Comptroller of the Treasury to conduct a study determining the sufficiency of Tennessee's minimum requirements for moto vehicle insurance coverage and financial protection for Tennessee motorists.

Title 55, Chapter 12 of the *Tennessee Code Annotated (T.C.A.)* sets out the financial responsibility requirements of motor vehicle owners or operators in Tennessee. (See Appendix A for summary of law.) Tennessee requires all vehicles subject to the registration and certificate of title provisions to be in compliance with the financial responsibility law, which is primarily done through private liability insurance policies. The purpose of the law is to ensure that when a driver is at fault in an auto accident, the other drivers' and passengers' medical, car repair, and other related costs are covered at least up to the state-required levels.

Tennessee's minimum requirements for motor vehicle liability insurance for bodily injury or property damage to another is $25,000 for bodily injury liability for one person injured in an accident, $50,000 bodily injury liability for all injuries in one accident, and $10,000 property damage liability for one accident (commonly reported as 25/50/10). In addition, Tennessee allows a motorist to alternatively purchase a single policy limit to cover $60,000 in both bodily injury and property damage in an accident. These minimums were established as of December 31, 1989, and remain the same in 2006.

In addition, *T.C.A.* 56-7-1201 requires every automobile liability insurance policy to include uninsured motorist coverage at the same limits as the bodily injury limits stated in the policy. However, an insured motorist may reject the insurance in writing or reduce the level of uninsured motorist coverage down to the minimum liability insurance requirements.

### ***Comparisons to other states***

All states have some form of financial responsibility law that holds motorists accountable for bodily injury or damages to vehicles.[1] All states have laws that set the minimum amounts of insurance or other financial security that drivers have to pay for harm caused by their negligence behind the wheel, if an accident occurs. Most states require drivers to have auto liability insurance before they can legally drive a car.[2]

**Tennessee is one of only three states (New Hampshire and Wisconsin) that does not have compulsory auto insurance liability laws.**[3] In Tennessee, drivers may meet the requirements for financial responsibility through cash or bonds deposited with the Department of Safety in addition to proof of insurance at the required levels. According to the Director of Financial Responsibility within the Department of Safety, few persons (two or three) have filed cash or a bond to meet the financial responsibility requirements. In effect, almost all Tennesseans who follow the financial responsibility law do so through insurance, at least at the minimum required levels.

**Exhibit 1: National and Regional Comparisons of Tennessee's Motor Vehicle Insurance Limits**

| | Bodily Injury, 1 person | Bodily Injury, accident | Property Liability |
|---|---|---|---|
| **Nationwide** | | | |
| < Tennessee | 20 | 20 | 5 |
| = Tennessee | 25 | 25 | 23 |
| > Tennessee | 4 | 4 | 21 |
| ***Southern States*** | | | |
| < Tennessee | 6 | 6 | 0 |
| = Tennessee | 6 | 6 | 7 |
| > Tennessee | 1 | 1 | 6 |

## Exhibit 2: Required Minimum Liability Insurance Limits, 2006 (in thousands)

| | Bodily Injury, 1 person | Bodily Injury, accident | Property Liability |
|---|---|---|---|
| ***Alabama*** | 20 | 40 | 10 |
| Alaska | 50 | 100 | 25 |
| Arizona | 15 | 30 | 10 |
| ***Arkansas*** | 25 | 50 | 25 |
| California | 15 | 30 | 5 |
| Colorado | 25 | 50 | 15 |
| Connecticut | 20 | 40 | 10 |
| Delaware | 15 | 30 | 10 |
| ***Florida*** | 10 | 20 | 10 |
| ***Georgia*** | 25 | 50 | 25 |
| Hawaii | 20 | 40 | 10 |
| Idaho | 25 | 50 | 15 |
| Illinois | 20 | 40 | 15 |
| Indiana | 25 | 50 | 10 |
| Iowa | 20 | 40 | 15 |
| Kansas | 25 | 50 | 10 |
| ***Kentucky*** | 25 | 50 | 10 |
| ***Louisiana*** | 10 | 20 | 10 |
| Maine | 50 | 100 | 25 |
| Maryland | 20 | 40 | 15 |
| Massachusetts | 20 | 40 | 5 |
| Michigan | 20 | 40 | 10 |
| Minnesota | 30 | 60 | 10 |
| ***Mississippi*** | 25 | 50 | 25 |
| ***Missouri*** | 25 | 50 | 10 |
| Montana | 25 | 50 | 10 |
| Nebraska | 25 | 50 | 25 |
| Nevada | 15 | 30 | 10 |
| New Hampshire | 25 | 50 | 25 |
| New Jersey | 15 | 30 | 5 |
| New Mexico | 25 | 50 | 10 |
| New York | 25 | 50 | 10 |
| ***North Carolina*** | 30 | 60 | 25 |
| North Dakota | 25 | 50 | 25 |
| Ohio | 12.5 | 25 | 7.5 |
| Oklahoma | 25 | 50 | 25 |
| Oregon | 25 | 50 | 10 |
| Pennsylvania | 15 | 30 | 5 |
| Rhode Island | 25 | 50 | 25 |
| ***South Carolina*** [a] | 15 | 30 | 10 |
| South Dakota | 25 | 50 | 25 |
| ***Tennessee*** | **25** | **50** | **10** |
| ***Texas*** | 20 | 40 | 15 |
| Utah | 25 | 50 | 15 |
| Vermont | 25 | 50 | 10 |
| ***Virginia*** | 25 | 50 | 20 |
| Washington | 25 | 50 | 10 |
| ***West Virginia*** | 20 | 40 | 10 |
| Wisconsin | 25 | 50 | 10 |
| Wyoming | 25 | 50 | 20 |

(a) South Carolina's limits will increase to 25/50/25 on 1/1/2007.

Source: Property Casualty Insurers Association, state departments of insurance and motor vehicles, as reported in "Compulsory Auto Insurance," Insurance Information Institute, 2006.

## Exhibit 3: Average Liability Insurance Expenditures, 2003

| | Average Expenditures | Rank |
|---|---|---|
| Alabama | $354.34 | 39 |
| Alaska | 582.22 | 10 |
| Arizona | 502.58 | 16 |
| Arkansas | 378.84 | 36 |
| California | 481.71 | 18 |
| Colorado | 545.05 | 11 |
| Connecticut | 611.45 | 7 |
| Delaware | 662.54 | 5 |
| Florida | 715.59 | 2 |
| Georgia | 394.48 | 29 |
| Hawaii | 513.44 | 15 |
| Idaho | 337.63 | 43 |
| Illinois | 404.78 | 28 |
| Indiana | 373.70 | 37 |
| Iowa | 301.04 | 46 |
| Kansas | 298.57 | 48 |
| Kentucky | 472.40 | 22 |
| Louisiana | 609.93 | 8 |
| Maine | 351.88 | 40 |
| Maryland | 524.39 | 12 |
| Massachusetts | 666.36 | 4 |
| Michigan | 436.51 | 26 |
| Minnesota | 476.37 | 20 |
| Mississippi | 390.44 | 30 |
| Missouri | 382.11 | 33 |
| Montana | 380.55 | 35 |
| Nebraska | 326.89 | 44 |
| Nevada | 585.29 | 9 |
| New Hampshire | 415.13 | 27 |
| New Jersey | 709.08 | 3 |
| New Mexico | 439.70 | 24 |
| New York | 799.26 | 1 |
| North Carolina | 338.03 | 42 |
| North Dakota | 245.31 | 50 |
| Ohio | 388.51 | 31 |
| Oklahoma | 386.93 | 32 |
| Oregon | 477.59 | 19 |
| Pennsylvania | 488.82 | 17 |
| Rhode Island | 650.74 | 6 |
| South Carolina | 451.39 | 23 |
| South Dakota | 291.68 | 49 |
| **Tennessee** | **347.57** | **41** |
| Texas | 474.99 | 21 |
| Utah | 438.24 | 25 |
| Vermont | 360.94 | 38 |
| Virginia | 381.03 | 34 |
| Washington | 520.98 | 13 |
| West Virginia | 516.34 | 14 |
| Wisconsin | 325.47 | 45 |
| Wyoming | 319.68 | 46 |
| **Nationwide** | $485.37 | |

Note: Average expenditures = total premium for liability coverage/liability written car-years.

Source: "State Average Expenditures and Premiums for Personal Automobile Insurance in 2003," National Association of Insurance Commissioners (NAIC), as reported in "Auto Insurance," Insurance Information Institute. Permission to reprint granted by NAIC.

***Minimum insurance limits***

**Nationally, Tennessee's bodily injury requirements are greater than or equal to 45 other states'.**[4] Twenty states have lower requirements and 25 states have the same. Only four states have higher bodily injury limits. (See Exhibits 1 and 2.)

**Tennessee's minimum requirements for bodily injury liability insurance (25/50) are comparable to or higher than most southern states'.** Only North Carolina has higher limits for bodily injury liability insurance (30/60). Six southern states have the same requirements as Tennessee. Six southern states have lower limits per person and per accident:  two at 10/20, one at 15/30, and three at 20/40. (See Exhibits 1 and 2.)

**Tennessee's requirements for property damage are the same or lower than most other states'**. No southern states have lower property damage liability requirements than Tennessee. Seven southern states have the same $10,000 limit and six states have higher property damage limits: one at $15,000, one at $20,000, and four at $25,000. Nationally, Tennessee's property damage liability requirement is less than 21 states, the same as 23 states, and greater than only five states. (See Exhibits 1 and 2.)

***Insurance costs***

**Motor vehicle liability insurance premium expenditures are lower in Tennessee compared to other states'.** In 2003, Tennessee ranked 41st nationally in the average expenditures for liability insurance premiums, $347.57 per year compared to $485.37 nationally.[5] (See Exhibit 3.)These expenditures are affected by the coverage purchased as well as other factors, such as age of car, urban population, traffic density, age, gender, as well as liability coverage requirements.

Insurance also appears to be available in the private market to most drivers in Tennessee. The state operates an assigned risk pool for persons unable to purchase insurance in the private market. According to the Director of Actuarial Services for the Department of Commerce and Insurance, currently less than 100 personal auto policies are insured by the Tennessee Automobile Insurance Plan. The plan ensures availability but does not provide lower cost insurance for high risk drivers.

***Uninsured motorists***

**Tennessee ranks sixth nationally in estimated percentage of uninsured motorists. In 2004, Tennessee had an estimated 21.2 percent of uninsured drivers compared to 14.6 percent nationally and 13.9 percent for southern states.** (See Exhibit 4.) Tennessee is above the national and southern state averages for the percentage of uninsured motorists. The percentage of uninsured motorists ranged from 26.5 percent in Mississippi to 4.2 percent in Maine. In the Insurance Research Council's estimates, Tennessee's uninsured motorist percentages stayed relatively stable between 1999 and 2004 (between 20.5 percent and 22.2 percent). Nationally, rates increased from 12.7 percent in 1999 to 14.6 percent in 2004.

The latest and most complete figures available are for 2004 and are published by the Insurance Research Council.[6] The percentages are based on the ratio of claims by individuals injured by uninsured drivers using uninsured motorist insurance coverage to bodily injury claims made by individuals using liability coverage of an at-fault driver. This estimates the chance, expressed as a percentage, that if someone is injured in an auto accident, the at-fault driver was uninsured. The estimate focuses only on the injury portion of the coverage, not property damage.

***How much insurance is sufficient?***

**The minimum requirements for motor vehicle liability insurance should have some correspondence to the potential for losses incurred, balanced by the cost of insurance.** Liability insurance covers the personal injury and property damage an at-fault driver causes in a motor vehicle accident. If an insured's policy is not sufficient to cover the cost of an at-fault accident, the at-fault driver is personally responsible for the damages over the policy limits. The victims must try to collect the difference from the at-fault driver if he/she has the means to pay for losses incurred by others.[7] However, the injured party may rely on his or her own uninsured motorist coverage to pay for the injury costs and property damage incurred and the insurance company may then seek payment from the at-fault driver.

Higher liability coverage adds to the premium cost of insurance. A vehicle owner must balance the risk of liability with the cost of insurance. A person with greater assets would probably choose greater coverage to protect personal assets from additional claims above the minimum amount. State law sets the minimum amount of insurance a person who buys insurance must have. Insurance representatives interviewed recommend that the requirements be as low as possible to avoid losing insured drivers. If vehicle owners perceive that the cost of insurance is too high, especially if their assets are limited, they may forgo the purchase of insurance (despite the financial responsibility laws) and take the chance they will not be at fault in an accident.

The Tennessee Trial Lawyers Association contends that raising Tennessee's minimum limits is needed protection for Tennessee citizens. The association indicates that Tennesseans involved in auto accidents are rarely able to recover completely from the financial burden placed on them when the negligent driver is covered only by the minimum state requirement of automobile insurance. The association is able to provide specific examples where injured Tennesseans were left without compensation for injuries sustained in motor vehicle crashes where minimum limits were inadequate. To put the number of serious cases in perspective, more comprehensive data on the total number and extent of injury or property damage for all accidents in a given time period is needed. However, such data is not available.

Tennesseans who lack sufficient uninsured or underinsured motorist coverage must sustain losses in accidents where uninsured motorists are at fault.[8] Persons who purchase uninsured motorist coverage ultimately pay the costs of uninsured or otherwise financially irresponsible drivers through higher uninsured motorist insurance premiums.

Interviews with insurance officials indicated that insurers do not have standard recommendations on level of coverage but usually recommend above the state minimum limits. **The larger "standard" (lower risk) insurers in Tennessee interviewed (about 40 percent of the market) indicated that 75 to 90 percent of their policies are above the limits; non-standard (higher risk) insurers indicated that almost all (98 percent) of their policies are at the minimum limits.**

***Comparison of insurance requirements to claims***

**Although detailed insurance claims data are not readily available, limited information on a national level indicates the insurance**

**Exhibit 4: Estimated Percentage of Uninsured Motorists, 2004**

| | | | | | |
|---|---|---|---|---|---|
| ***Mississippi*** | 26.5% | Rhode Island | 14.4% | Pennsylvania | 9.7% |
| ***Alabama*** | 24.8% | Wisconsin | 14.2% | ***West Virginia*** | 9.7% |
| California | 24.8% | ***Arkansas*** | 13.9% | ***Georgia*** | 9.6% |
| New Mexico | 24.3% | Hawaii | 13.5% | ***South Carolina*** | 9.6% |
| Arizona | 22.0% | Kansas | 12.7% | New Jersey | 9.4% |
| ***Tennessee*** | **21.2%** | Iowa | 12.4% | Utah | 9.3% |
| ***Florida*** | 19.4% | Montana | 12.4% | Idaho | 8.8% |
| Washington | 18.5% | Oregon | 12.3% | New Hampshire | 8.8% |
| Michigan | 17.5% | Connecticut | 12.2% | South Dakota | 8.8% |
| Nevada | 17.5% | Maryland | 12.2% | North Dakota | 8.7% |
| ***Texas*** | 16.5% | ***Missouri*** | 12.2% | ***North Carolina*** | 7.7% |
| Illinois | 16.1% | ***Kentucky*** | 11.8% | Nebraska | 7.5% |
| Indiana | 15.5% | Delaware | 11.7% | New York | 6.6% |
| Ohio | 15.4% | Wyoming | 10.7% | Massachusetts | 6.0% |
| Alaska | 15.3% | Minnesota | 10.4% | Vermont | 5.7% |
| Colorado | 15.0% | ***Louisiana*** | 10.2% | Maine | 4.2% |
| Oklahoma | 14.8% | ***Virginia*** | 10.0% | | |

Nationwide Average = 14.6% ***Southern States Average [a] = 13.9%***

(a) Calculated by OREA staff.

Source: "Uninsured Motorists," Insurance Research Council, June 2006. Press release accessed Oct. 10, 2006, www.ircweb.org.

**requirements in Tennessee are well above the average for claims**. The Insurance Information Institute reports the average claims for auto liability losses, as compiled by the Insurance Services Office (ISO Properties, Inc.).[9] For 2005, private passenger auto liability losses averaged $11,271 for bodily injury claims and $2,690 in property damage claims. The bodily injury claims average increased 17 percent from 1996 to 2005 (despite a 42 percent increase in the Consumer Price Index for medical care[10]). The property damage claims average increased 27 percent. However, the average may not necessarily reflect the range of claims.

In a 2003 study by the Insurance Research Council on a sample of bodily injury claims, only one percent of claims were over $50,000 and three percent were over $25,000. However, these claims represent 26 percent of total insurance payments.[11] Information provided by one of the larger insurance companies in Tennessee for 2005 indicated that the vast majority of claims were within the state's minimum insurance limits. Eighty-six percent of bodily injury claims were less than $25,000; 95 percent were less than $50,000. Ninety-six percent of property damage claims were less than $10,000.

**State and insurance officials interviewed indicated that the $10,000 property damage liability insurance may no longer be sufficient to cover many accidents because most cars are worth more than $10,000.** In 2006, the average price of a new car was about $27,800 and the average sales price of a used car was estimated at $13,900.[12] However, motor vehicles lose value over time and insurance pays only the vehicle's current value if the car cannot economically be repaired. The average property damage claim in 2005 of $2,690 was significantly lower than the $10,000 minimum limit.

***Cost of insurance at different levels of coverage***

**Increasing the property damage limit from $10,000 to $25,000 would require a six percent increase in the base rate for auto liability insurance. An increase in bodily injury limits from 25/50 to 50/100 would increase the base rate by 18 percent.** Insurance companies start with a "base rate" for different kinds and dollar amounts of auto insurance and then apply different factors to calculate a rate. The Department of Commerce and Insurance provided a comparison of base rates for personal vehicles in Tennessee compiled by the Insurance Services Office (ISO Properties, Inc.) for 2003. The base rates show the increase resulting from changes in liability coverage. Actual premium costs vary significantly based on several factors including location, gender, age, miles driven, driving record, and coverage requested.

**Increasing minimum limits from 25/50/10 to 50/100/25 would increase insurance premiums an estimated 12 to 22 percent and between $15 and $193 per six-months depending on several factors.** To determine the potential dollar impact on premiums from increased liability limits, several Tennessee insurers provided rate quotes at the current limits of 25/50/10 as well as at limits of 50/100/25 for several examples of drivers. Exhibit 4 shows average rates for different types of drivers. The data was provided by several Tennessee insurers that collectively wrote about 42 percent of the state's 2005 personal auto insurance premiums. As shown in Exhibit 5, rates as well as the increase in rates would be greater for higher risk drivers including those insured by nonstandard insurers, those with a poor driving record, or other higher risk factors such as age.

Insurance company representatives interviewed also warned of "claims inflation" if the minimum requirements are increased. In many cases, parties settle for the current policy limits even when the actual damages exceed the limits. With higher limits, average claim costs may increase, resulting in potentially higher rates. One insurance company noted that raising the limits in Georgia made it more economically feasible for injured parties to collect damages through hiring attorneys to file lawsuits. Ultimately, claim amounts and premiums increased.

***Other potential issues to consider***

**Does Tennessee need to increase monitoring and enforcement of Financial Responsibility Laws?**

The type of monitoring and the type and level of enforcement of financial responsibility laws were not within the scope of this study. However, the high rate of uninsured motorists in Tennessee indicates that additional action may be needed to require motorists in Tennessee to be financially responsible. Information below compares Tennessee to other states in these areas.

***Monitoring***

Tennessee primarily uses a passive/reactive approach to financial responsibility. The state

**Exhibit 5: Motor Vehicle Liability Insurance 6 Month Rate Comparisons**

| | Standard insurers | | | Nonstandard insurers | | |
|---|---|---|---|---|---|---|
| | 25/50/10 | 50/100/25 | $ Change (% Change) | 25/50/10 | 50/100/25 | $ Change (% Change) |
| **Driver A** 21 yr. old male, single, commute ≤10 miles, No accidents or traffic convictions in 3 years | $295 | $334 | $39 (13.2%) | $586 | $704 | $119 (20.2%) |
| **Driver B** 21 yr. old female, single, commute ≤10 miles, No accidents or traffic convictions in 3 years | $233 | $263 | $30 (13.0%) | $469 | $565 | $96 (20.4%) |
| **Driver C** 35 yr. old male, married, 15 mile commute, No accidents or traffic convictions in 3 years | $151 | $170 | $19 (12.6%) | $319 | $382 | $63 (19.6%) |
| **Driver D** 68 yr. old female, married, Pleasure use only, No accidents or traffic convictions in 3 years | $113 | $128 | $15 (12.9%) | $312 | $380 | $68 (21.8%) |
| **Driver E** 22 yr. old male, single, 15 mile commute, Major violation (DUI) in last year | $480 | $539 | $59 (12.3%) | $1,007 | $1,178 | $172 (17.0%) |
| **Driver F** 18 yr. old male, single, 15 mile commute, At fault accident last year | $682 | $774 | $92 (13.5%) | $1,096 | $1,288 | $193 (17.6%) |

Notes: Rate quotes are calculated for 2003 Ford Taurus LX (4-door sedan), a 6 month rate, in Nashville.

**Standard insurers** insure clients who meet certain company standards, primarily lower risk drivers. According to the Insurance Information Institute, the standard insurance market accounts for about 80 percent of the total private passenger auto insurance market in the United States.

**Nonstandard insurers** insure higher risk drivers that many standard companies will not insure. According to the Insurance Information Institute, the nonstandard insurance market accounts for about 20 percent of the total private passenger auto insurance market in the United States.

Source: Rate quotes provided to OREA by a sample of Tennessee insurance companies, September 2006.

requires proof of financial responsibility when an accident occurs and when a vehicle is stopped for a moving violation. State law includes additional requirements for drivers convicted of failure to establish financial responsibility after an accident or for failure to satisfy a judgment resulting from an accident. (See Appendix A for summary of law.)

Most of the 14 southern states examined use a more preemptive approach to financial responsibility and require proof of insurance at vehicle registration, when an accident occurs, and at all times in the vehicle. Ten southern states require proof of insurance at registration of a vehicle as a means to prevent uninsured vehicles, Tennessee does not. Proposed legislation[13] in 2006 would have required a person to show evidence of compliance with the Financial Responsibility Law to register a vehicle but was put on hold. The estimated potential cost of the proposal was over $7 million, primarily resulting from a reduction in state and local registration and wheel tax revenue because state officials projected some uninsured motorists would not renew their vehicle registrations.

Many states have programs to verify whether motorists are insured before an accident or violation occurs. Six southern states have computer data laws that compare the data of insurance companies' clients to the vehicle registration rolls. Officials interviewed with both the Department of Safety and Commerce and Insurance and insurance companies think the costs of implementing such programs are excessive for the results achieved in reducing the number of uninsured motorists and have a high error rate. A study sponsored by the American Association of Motor Vehicle Administrators in 1999[14] found mixed results for electronic insurance reporting. Measures of program effectiveness and costs were generally not available. Most stakeholders agree that these programs are expensive to implement and operate but dispute the degree of their effectiveness in reducing the number of uninsured motorists or costs to financially responsible drivers.

Pilot projects have begun in some states to give approved government employees - such as drivers' license and motor vehicle registration employees and law enforcement - real time, on-line access to insurance companies' databases to determine if drivers or vehicles are insured. This approach may prove to be more accurate and less cumbersome to both the government and insurance companies.

Two southern states verify randomly selected policies and ten states require insurers to notify the state of any cancellation or non-renewals. Tennessee requires notification of cancellations or non-renewals for persons required to obtain insurance after license revocation.

Many other states require proof of insurance to renew driver licenses and vehicle registrations. The estimated percentage of uninsured motorists does not appear strongly related to the presence of compulsory insurance laws. Of the three states that do not require insurance, Tennessee had a high rate of uninsured motorists (21.2 percent), Wisconsin was about average (14.2 percent), and New Hampshire was below average (8.8 percent).[15]

The Insurance Research Council's 2006 report on uninsured motorists also found that states with strict penalties, such as high fines and driver license suspensions, did not necessarily exhibit lower levels of uninsured motorists relative to other states.[16] However, the effectiveness of various penalties in reducing the percentage of uninsured motorists at least partially depends on the enforcement of penalties and the public's perception that the penalties would be enforced.

***Enforcement of current laws***

**In comparison to the 21.2 percent of uninsured motorists in Tennessee, the percentage of suspended and revoked licenses relative to financial responsibility laws appears low**. In fiscal year 2004-05, the Department of Safety suspended 25,881 drivers' licenses or driving privileges for convictions of driving without proof of financial responsibility. In addition, the department revoked 8,529 licenses for failure to establish financial responsibility after an accident and 2,314 licenses for failure to satisfy a judgment resulting from an accident. According to the department, the number of licensed drivers in Tennessee is approximately four million. The number of suspensions and revocations under the financial responsibility law was less than one percent of the licensed drivers in Tennessee.

Interviews with the Department of Safety indicated that there are some lapses in enforcement of the current law. The department cannot electronically put a stop on a vehicle registration for suspended or revoked drivers' licenses required by state law as of 2003. The drivers' license and the vehicle registration databases are not connected by a common identifying number, such as license number. As a result, vehicles driven by financially irresponsible operators that have caused an accident may be able to renew their vehicle registration despite the prohibition by statute. The department tries to manually flag the records based on the driver's name to prevent renewal until the license suspension is lifted, but it does not always succeed.

Data was not readily available to determine if the current laws in Tennessee are adequately enforced, leading to these unanswered questions: Do officers consistently cite drivers for no proof of insurance when stopped for moving violations and when involved in an accident? Are all accident victims adequately compensated for their losses from at-fault drivers? Do all vehicles and drivers have the minimum level of financial responsibility required?

## Endnotes

1 "The Financial Responsibility and Insurance Committee Resource Guide," American Association of Motor Vehicle Administrators (AAMVA), p.6, accessed Oct. 10, 2006, http://www.aamva.org.

2 "Compulsory Auto Insurance," Insurance Information Institute, February 2006, accessed October 10, 2006, www.iii.org/media/hottopics/compulsory.

3 Ibid.

4 Property Casualty Insurers Association of America, state departments of insurance and motor vehicles, as reported in "Compulsory Auto Insurance," Insurance Information Institute, February 2006, accessed October 10, 2006, www.iii.org/media/hottopics/compulsory.

5 "State Average Expenditures and Premiums for Personal Automobile Insurance in 2003," National Association of Insurance Commissioners (NAIC), as reported in "Auto Insurance," Insurance Information Institute, accessed Oct. 10, 2006, www.iii.org/media/facts/statsbyissue/auto. Permission to reprint granted from NAIC.

6 "IRC estimates more than 14 percent of drivers are uninsured," Insurance Research Council press release, June 28, 2006, accessed Oct. 10, 2006, www.ircweb.org.

7"Consumer Guide to Auto Insurance," National Association of Insurance Commissioners, 2006, accessed Oct. 10, 2006, http://www.naic.org/documents/consumer_guide_auto.pdf.

8 Ibid.

9 Insurance Services Office (ISO Properties, Inc.) as reported in "Auto Insurance," Insurance Information Institute, accessed Oct. 10, 2006, www. iii. org/media/facts/statsbyissue/auto.

10 Bureau of Labor Statistics, Consumer Price Index, calculated at www.bls.gov on Sept. 11, 2006.

11 "Auto Injury Insurance Claims: Countrywide Patterns in Treatment, Cost, and Compensation," Insurance Research Council, December 2003, fax to the author, May 12, 2006. This information excludes permanent total disabilities, fatalities, and claimants with zero or missing economic loss.

12 Philip Reed and John DiPietro, "Part One: Identifying Your Target Cars & Arranging Financing," accessed Aug. 23, 2006, www.Edmunds.com.

13 House Bill 2817 and Senate Bill 2868 (2006).

14 Booz-Allen & Hamilton, "Electronic Insurance Reporting: A Lessons Learned Study," prepared for the American Association of Motor Vehicle Administrators (AAMVA), October 1999, accessed Oct. 10, 2006, http://www.aamva.org/.

15 "Uninsured Motorists 2006," Insurance Research Council. June 2006. Press release accessed on Oct. 10, 2006 at www.ircweb.org.

16 Ibid, p.14.

## Appendix A
## Summary of Tennessee Law

Specific financial responsibility requirements of the Tennessee law (*T.C.A.* 55-12-102(12) (C)) effective after December 31, 1989, include the following:

- written proof of liability insurance provided by a single limit policy of not less than $60,000 applicable to one accident;
- a split-limit policy with a limit of not less than $25,000 for bodily injury or death of one person, not less than $50,000 for bodily injury or death of two or more persons in any one accident, and not less than $10,000 for property damage in any one accident;
- a deposit of cash with the Commissioner of Safety of $60,000; or
- execution and filing of a bond with the commissioner in the amount of $60,000.

The Department of Safety administers the Financial Responsibility Law in Tennessee. Effective January 1, 2002, *T.C.A.* 55-12-139 requires the driver of every vehicle that is subject to the registration and certificate of title provisions and is charged with a moving violation or involved in an accident to show evidence of financial responsibility. Failure to produce evidence is a Class C misdemeanor punishable by a fine of not more than $100 and suspension of the driver's license. Effective July 1, 2003, the department is required by *T.C.A.* 55-12-140 to suspend a vehicle registration until any person convicted of 55-12-139 provides evidence of financial responsibility. Reinstatement of the license requires evidence of financial responsibility, payment of a $65 fee, and passing a driver license examination.

Additional provisions of the law deal with owners or operators unable or unwilling to make restitution after an accident. *T.C.A.* 55-12-104 requires the operator of a motor vehicle that is involved in an accident in Tennessee that results in bodily injury or property damage in excess of $400 to file an accident report with the department. If a report is not received after an operator is given notice from the department, the department is required to suspend the license and registration or nonresident operating privileges of the operator and owner of the vehicle until the report is received. Upon receiving notice of a claim, the department determines if there is reasonable possibility of a judgment against the owner, operator, or both. If so, the department is required to revoke the license and all registrations of the owner, operator, or both, or the driving privileges of an out-of-state driver, unless there is proof of acceptable financial security including:

- written proof of insurance;
- a cash deposit or bond for the total amount of damages suffered with a minimum of $500 and a maximum of $60,000; or
- a release executed by all parties who filed claims as a result of the accident.

A driver's license cannot be renewed or reinstated after any departmental suspension or revocation until

- a court has rendered a judgment which relieves the person with a revoked license of any liability for the accident;
- a claimant has not filed court action as a result of the accident within one year of the accident;
- a court has rendered a judgment and such judgment is paid;
- claimants release the revoked person from liability as a result of an accident;
- claims are dismissed in a bankruptcy order; or
- the person with a revoked license has reached an agreed upon settlement of the damages to the satisfaction of the claimant.

In addition, to restore privileges the person with a revoked license must maintain proof of financial responsibility for three years, pay a $65 restoration fee, and pass the driver license examination. After five years, the department may release the requirement for proof of financial responsibility if the person with a revoked license has satisfied all motor vehicle accident judgments and not been convicted of any offense that would result in suspension or revocation of driving privileges. Driving with a revoked or suspended license, or loss of driving privilege for a nonresident, is a Class B misdemeanor, which is punishable by a sentence not greater than six months, a fine not greater than $50, or both, and revocation/suspension of driving privileges.

The Offices of Research and Education Accountability provide non-partisan, objective analysis of policy issues for the Comptroller of the Treasury, the General Assembly, other state agencies, and the public.

The Office of Research provides the legislature with an independent means to evaluate state and local government issues. The office assists the Comptroller with preparation of fiscal note support forms for the Fiscal Review Committee, monitors legislation, and analyzes the budget.

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