

REPORT

OF THE

Y-3-137C.2
MOTOR VEHICLE FINANCIAL RESPONSIBILITY
AND
COMPULSORY INSURANCE COMMISSION



J. Ruffin Bailey, Chairman

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REPORT

MOTOR-VEHICLE SAFETY RESEARCH

COMMITTEE ON PUBLIC SAFETY



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THE MOTOR VEHICLE FINANCIAL RESPONSIBILITY
AND COMPULSORY INSURANCE COMMISSION

Raleigh, North Carolina
January 30, 1967

To His Excellency, Dan K. Moore
Governor of North Carolina
Raleigh, North Carolina

Dear Governor Moore:

We have the honor to submit to you, for transmission to the members of the General Assembly, this report of the Motor Vehicle Financial Responsibility and Compulsory Insurance Commission.

The work of this Commission in this report was performed in accordance with the requirements of Resolution No. 90 of the General Assembly of 1965, which authorized the appointment of the Commission and directed that the Commission report to the 1967 General Assembly its findings, conclusions and recommendations concerning the Motor Vehicle Financial Responsibility and Compulsory Insurance laws.

Respectfully submitted,

CHARLES D. ARTHUR

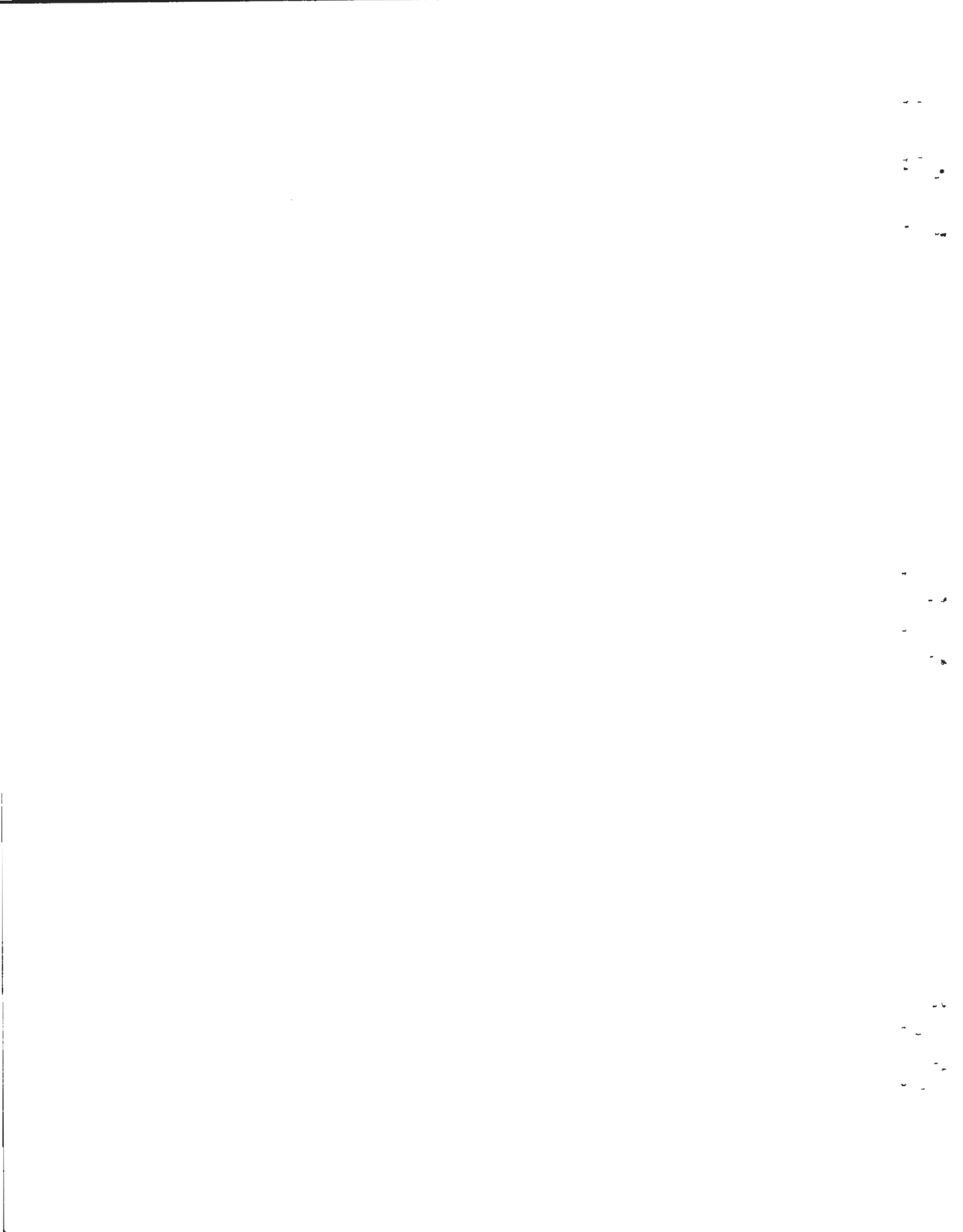
RICHARD C. ERWIN, SR.

MRS. KESTER A. SINK

WALKER TAYLOR, JR.

W. R. BRITT, Vice-Chairman

J. RUFFIN BAILEY, Chairman



I N M E M O R I A M

In Memory

and

In Grateful Appreciation

of

Distinguished Service Rendered The
Motor Vehicle Financial Responsibility
and Compulsory Insurance Commission

by

ALAN H. NEWCOMB

whose untimely death on

October 21, 1966

was a great loss to this Commission

and

to the State of North Carolina

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INTRODUCTION

This Commission was created by Resolution No. 90 of the General Assembly of 1965.

The purpose for which the Commission was created, as stated in the Resolution, was to make a detailed, exhaustive and analytical study of the Motor Vehicle Safety and Financial Responsibility Act of 1953 under Article 9A of Chapter 20 of the General Statutes and the Vehicle Responsibility Act of 1957 under Article 13, Chapter 20 of the General Statutes, and to make such recommendations and appraisals as the Commission may deem advisable, and to make a report to the General Assembly of 1967 in which it shall set forth its findings, conclusions and recommendations concerning the purposes for which the Commission was created.

The Commission was made up of seven members: Mr. Charles D. Arthur, Raleigh, North Carolina; Mr. Richard C. Erwin, Sr., Winston-Salem, North Carolina; Mr. Alan H. Newcomb, Matthews, North Carolina; Mrs. Kester A. Sink, Mount Airy, North Carolina; Mr. Walker Taylor, Jr., Wilmington, North Carolina, Mr. W. R. Britt, Smithfield,

North Carolina, Vice-Chairman; and Mr. J. Ruffin Bailey, Raleigh, North Carolina, Chairman.

It was early stated by the full Commission that it should try to seek information from every source pertaining to Motor Vehicle Financial Responsibility and Compulsory Insurance and that it would hear any and all interested persons who had any suggestions to offer in connection with problems growing out of the laws related to this study.

The early meetings were publicized through the media of newspaper, radio and television urging all interested citizens of the State of North Carolina to appear at the time and place stated for the purpose of presenting any and all matters relating to this study. All hearings were held in the Appropriations Committee Public Hearing Room in the State Legislative Building in Raleigh, with notice to all of the news media and to all parties indicating an interest to receive such notice, and were each attended by members of the Commission, the Commissioner of Insurance and various members of his staff, the Commissioner of Motor Vehicles and various members of his staff, and various groups

representing the industry and all its various facets, as well as members of the public generally.

In addition to hearing evidence, the Commission received briefs, letters and post cards from citizens, businesses and organizations throughout the State and gave careful consideration to each suggestion during the course of its study.

This Commission wishes publicly to express its thanks to the Commissioner of Insurance, the Honorable Edwin S. Lanier, and his able staff, namely: Mr. John C. Daniel, Jr., Mr. Hugh R. Owen and Mr. Robert E. Holcombe; the Commissioner of Motor Vehicles, the Honorable A. Pilston Godwin, Mr. Joe W. Garrett, Assistant Commissioner of Motor Vehicles, Miss Foy Ingram, Registration Director, Department of Motor Vehicles; and Bernard A. Harrell and Wilson B. Partin, Jr., members of the Attorney General's staff.

In addition to those representing the Administrative Departments of the State of North Carolina, this Commission wishes to acknowledge its appreciation to Mr. Paul L. Mize of the North Carolina Rate Administrative Office in particular for his cooperation in providing statistics and record evidence of the experience of the Assigned Risk Plan and the Safe-Driver Insurance Plan.

SUMMARY OF RECOMMENDATIONS

1. That the present plan of compulsory insurance be retained.

2. That the minimum limits under our compulsory insurance plan be increased from 5/10/5 to 10/20/5.

3. That the safe-driver insurance plan established by the 1961 General Assembly and amended by the 1963 Session of the General Assembly be revised so as to more realistically relate ratings for insurance purposes to the risk involved.

4. That G. S. 20-309(e), which provides for the 30-day suspension of a person's drivers license for his failure, after proper notice, to turn in his motor vehicle tag or re-certify insurance coverage to the Department of Motor Vehicles, be retained in its present form with two minor revisions, which have been requested by the Department of Motor Vehicles to clarify administrative procedures.

5. That a Commission be established immediately following the 1967 General Assembly consisting of the same number of people with at least one from the House

of Representatives and one from the Senate and charged with continuing the study into the general area of problems arising out of the financial responsibility and compulsory insurance laws, but broadened so as to have the added responsibility of exploring all remedies to improve the present intolerable record of casualties to lives, limbs and properties resulting from the operation of motor vehicles. This Commission should keep an open mind to exploring innovations discovered by others or found here to handle more adequately and less burdensomely the financial responsibility requirements which are felt necessary and should consider ways and means to de-populate our present assigned risk plan. More study is needed in the issuance and requirements for retention of drivers licenses. Safety programs, driver education programs and many other areas related to this problem should properly be studied by this Commission.

RETENTION OF COMPULSORY INSURANCE

The scheme of responsibility as set out in the 1953 and 1957 Acts is to insure that every person operating

a motor vehicle in the State of North Carolina either has the protection of a policy of liability insurance or has filed other evidence of financial responsibility which he is allowed under the statutes.

The 1953 Act has been referred to as "Responsibility After Act". It requires an operator of a motor vehicle to prove financial responsibility after he has been involved in an accident involving death or injury or an accident in which the property damage exceeds the amount of \$100.00. The Commissioner of Motor Vehicles has authority to determine the amount of security sufficient to satisfy any judgment of damages resulting from an accident as may be recovered against the operator. This Act is administered by the Driver License Division of the Motor Vehicles Department. This pattern of responsibility after is a necessary ingredient of our present plan and of the future plan as envisioned by this Commission, in that it affords an effective tool for the removal, from the highways of the State of North Carolina, of those who will operate a motor vehicle in spite of the laws requiring compulsory insurance or other evidence of financial responsibility before he may

register his vehicle, and if this statute is used properly in connection with the 1957 Act, many of the problem drivers presently stalking our highways will be unable to continue to do so.

The 1957 Act, which has been referred to as the "Responsibility Before Act", requires that the owner of a motor vehicle, prior to the registration thereof, certify that he has financial responsibility. Prior to the 1957 Act, it was estimated that some thirty-five (35%) per cent of the motor vehicles in North Carolina were uninsured. During the 1965 General Assembly, it was estimated that only about eight (8%) per cent of the motor vehicles operating with North Carolina registrations were uninsured. It is obvious to this Commission that the 1953 Act by itself was inadequate in that it allowed motorists to operate motor vehicles without having insurance or financial responsibility and required only that after a serious accident they show financial responsibility by making a security deposit. Experience under that Act also showed that in many bad accidents in which death or permanent injury ensued the victims never received any financial relief or restitution from the persons liable. At the time of this

report, according to the best estimates available today, there are a little over three (3%) per cent of the drivers of North Carolina with registered vehicles uninsured, and under our present statutes, this number can and will be decreased.

While the Commission has heard from many sources some discontent with the present plan of financial responsibility and compulsory insurance, there has been no plan offered which in the opinion of this Commission better meets the needs of the general public of North Carolina than does our present plan; and although North Carolina is one of only three states having compulsory insurance before the registration of a motor vehicle, it has not been shown to the satisfaction of this Commission that the problems in this State are any different from the problems in all of the other 50 states relating to responsibility in connection with the operation of motor vehicles.

The fact of the matter is that every state will continue to have problems with matters relating to financial responsibility and liability insurance, whether it be compulsory or otherwise, so long as the

people who operate motor vehicles lack the responsibility to live up to the standards which must be established for their own protection.

The preponderance of evidence is that the basic problem facing the insurance industry and the people throughout the length and breadth of this entire Nation and particularly the people of North Carolina is a deterioration in driver attitude and a deterioration of public indignation over needless highway slaughter. This is the disease. The Assigned Risk situation, higher costs of insurance and all of our other problems are really only symptoms of the disease.

This Commission recommends that the State of North Carolina continue its present plan as provided under the 1953 and 1957 Acts with the revisions hereinafter recommended.

MINIMUM LIMITS UNDER COMPULSORY INSURANCE
PLAN INCREASED

The Commission recommends to the 1967 General Assembly that the minimum limits under our compulsory insurance

plan be increased from 5/10/5 to 10/20/5. The evidence is clear and convincing that there is a need and a public demand for this increased requirement of financial responsibility. In a day of rising costs of hospital and medical expenses a grave social problem exists in failing to compensate injured parties adequately. It also recognizes that with increased costs of these services as well as increased costs of attorneys' fees and cost of living generally, a sum of money adequate several years ago is not adequate today.

In making this recommendation, however, the Commission is aware of certain consequences, among which are the following:

(1) INCREASE IN THE COSTS OF INSURANCE APPRECIABLY FOR ALL CITIZENS NOW CARRYING ONLY MINIMUM COVERAGE.

Figures show that an increase in minimum limits from 5/10 to 10/20 would immediately bring increases in premiums ranging from \$4.00 to \$52.00 per year. (See Appendix A) We must be reminded that insurance companies must collect premiums from those who buy insurance protection in order to pay for claims involving personal injuries, property damage, costs of handling

claims and defense of suits and other expenses. The greater the awards for such claims the higher the insurance premium rates will be. The public eventually foots the bill.

(2) ADVERSE EFFECT ON THE OVERALL LOSS EXPERIENCE WHICH COULD LEAD TO GREATER RATE INCREASES IN THE FUTURE.

As long as North Carolina is a compulsory insurance state, it will be known that an offending driver by complying with the law would have 10/20/5 limits instead of 5/10/5 limits. This could increase demands for settlement and could also tend to increase jury verdicts rendered in accident cases. If this happens, it could only have the effect of making the cost of insurance go up. (See Appendix B entitled "Average Paid Claim Cost Data", comparing North Carolina with Virginia - source: N. C. Automobile Rate Administrative Office, Raleigh, N. C.)

(3) CAUSE INSURANCE MARKET TO BECOME MORE RESTRICTIVE AND FORCE MORE INSURED INTO THE ASSIGNED RISK PLAN.

The assigned risk plan is already overpopulated, and with the greater exposure that insurance companies will have by increased minimum limits, it is certainly

possible and reasonable to assume that the companies will be less likely to write voluntarily as many risks for 10/20 as they are willing to write for 5/10 limits. Therefore, this may cause and lead to a larger number of assigned risk insureds.

(4) DOUBLING MINIMUM LIABILITY LIMITS MAY INCREASE NON-COMPLIANCE.

Many of our citizens have difficulty in paying the costs of insurance under the present compulsory plan. Many drivers make down payments on insurance premiums in order to get a license, and when they fail to make balance of payments as due, their insurance is cancelled. Unfortunately, most of these people continue to drive without insurance and if the drivers are doing this with the cheaper cost of 5/10/5, it is reasonable to expect that with the more expensive insurance the more the tendency will be for increased lapses in coverage.

At the present time it is estimated that there is approximately ninety-seven (97%) per cent compliance with the 5/10/5 minimum limits. This has increased since the 1965 Legislature from approximately ninety-two

(92%) per cent compliance, which is a very good record. Doubtless, doubling the minimum insurance limits will have a tendency to again lower the percentage of compliance by our drivers unless, of course, continued effort is made to enforce continuous coverage.

The Commission recognizes that our border states have financial responsibility laws as follows: Virginia - 15/30; Tennessee - 10/20; South Carolina - 10/20. Indeed the financial responsibility requirement of a vast majority of the states requires minimum limits of 10/20/5. (See Appendix C reprinted from page 39, August, 1966, issue of The American Agency Bulletin.) This vividly points out that if a North Carolina citizen, with the present minimum limits, was involved in an accident in any of these states, his minimum limits would not come up to the minimum financial responsibility requirements in these states. Certainly liability insurance, to serve its original purpose of financially protecting a driver from his own negligence as well as its social purpose of financially protecting others on the highways, must be adequate in the larger number of cases to cover costs resulting from injuries.

Therefore, this Commission, with full knowledge of the foregoing, recommends that the minimum limits for personal injury be raised as follows: from \$5,000 to \$10,000 for one personal injury in an accident; from \$10,000 to \$20,000 for all personal injuries in one accident and that property damage in the amount of \$5,000 in one accident remain the same.

SAFE DRIVER INSURANCE PLAN

The 1961 General Assembly by House Bill 930 - AN ACT TO REWARD SAFE DRIVERS BY AMENDING ARTICLE 25 OF CHAPTER 58 OF THE GENERAL STATUTES TO EQUITABLY REGULATE AUTOMOBILE LIABILITY INSURANCE RATES AND ESTABLISH A SAFE DRIVER REWARD PLAN - rewrote G. S. 58-248.8 as follows:

"G. S. 58-248.8 Rates to Distinguish Between Safe and Non-Safe Drivers. The Commissioner of Insurance, in the manner prescribed in Article 25 of Sub-Chapter V of Chapter 58 of the General Statutes, is directed to establish a Safe-Driver Reward Plan which adequately and factually distinguishes between classes of drivers having safe-driving records and those having a record of chargeable accidents, convictions of major traffic violations and/or a series of minor traffic violations."

The 1963 General Assembly by Amendment effective September 1, 1963, deleted the words "and/or a series of minor traffic violations" at the end of the paragraph in House Bill 930 and inserted a paragraph which designated the points that could be charged. The Commission unanimously feels that in order to afford the beneficial aspects of the concept of the safe-driver insurance plan, it is necessary that the present rigid point plan be eliminated and that the Commissioner of Insurance be permitted, within the bounds established in the 1961 Statute, to establish a safe-driver insurance plan as will meet the needs of the times and will more realistically relate automobile insurance rating to the risk involved.

Safe-driver insurance plans represent an attempt to reflect in automobile insurance rating the proposition that, in the aggregate, automobile drivers who have violated the motor vehicle laws or who have been involved in one or more automobile accidents in the past are more likely to be involved in automobile accidents in the future. That such is the case has been demonstrated by several studies, one of which appears in

"A Review of Point Systems with Recommendations for
Administrative Procedures" by Dr. Wallace N. Hyde,

North Carolina Department of Motor Vehicles. Dr. Hyde studied the records of the Department of Motor Vehicles with regard to a sample of Forty Thousand, Four Hundred, Sixty-seven (40,467) North Carolina drivers in an attempt to determine whether drivers convicted of one or more motor vehicle law violations not arising from accidents tended, on other occasions, to be involved in more accidents than drivers with fewer such violations or than drivers with no such violations. His results were summarized as follows:

AVERAGE ACCIDENTS FOR NORTH CAROLINA DRIVERS
WITH VARIOUS NUMBERS OF VIOLATIONS

<u>Number of Non-Accident Violations</u>	<u>Drivers In Total Sample</u>	<u>Average Accidents Per Driver</u>
0	29,984	.167
1	5,921	.391
2	2,221	.560
3	1,042	.699
4	595	.857
5	704	1.001
Total	40,467	-

Popular Appeal. -- The safe-driver insurance plan idea appeals to a large number of motorists who feel that a heavy share of total automobile insurance premiums should be paid by those who "cause the accidents" Undoubtedly, it was this sentiment that gave rise to the legislation enacted by the 1961 North Carolina General Assembly which required establishment of a "safe driver reward plan".

The Safe-Driver Insurance Plan placed into effect September 1, 1961, by order of the then Commissioner of Insurance Charles F. Gold, differed substantially from the plan proposed on behalf of the insurance carriers by the North Carolina Automobile Rate Administrative Office and the North Carolina Fire Insurance Rating Bureau. The 1961 Plan remained in effect until September 1, 1963, when a revised and much less severe Safe-Driver Insurance Plan was ordered into effect by Commissioner of Insurance Edwin S. Lanier as the result of legislation (G.S. 58-248.8) enacted by the 1963 General Assembly.

Point Value. -- The 1961 Plan, like the current Plan adopted in 1963, translated violation and accident

record into rate modification by means of a point system as follows:

	<u>Points 1961 Plan</u>	<u>Points 1963 Plan</u>
Manslaughter	8	8
Highway racing	8	6
Prearranged highway racing	8	8
Driving drunk	6	6
Hit and run (bodily injury)	6	6
Transporting liquor	6	6
Driving while license suspended or revoked	6	6
Hit and run (property damage)	3	3
Reckless driving	3	3
Passing stopped school bus	3	3
Speeding over 75 m.p.h.	3	3
Illegal passing	3	1
Speeding over 55 but not over 75	1	(a)
Following too closely	1	(a)
Driving on wrong side of road	1	(a)
Any other moving traffic violation	(b)	None
Chargeable accident, B. I. or \$100 P. D.	2	1
Two or more accidents P. D. less than \$100	2	1

(a) One point for each two convictions of the same offense.

(b) One point for each violation in excess of one.

Other than with respect to the number of points assigned for accidents and for certain of the less serious but much more numerous motor vehicle violations, the 1963 Safe-Driver Insurance Plan is almost exactly like its predecessor. Like the 1961 Plan, it applies in the same

way to assigned risks and risks insured voluntarily. Points, or lack of points, are converted to rates through use of a table which adds a surcharge to, or subtracts a credit from, "manual" or "basic" rates:

<u>No. of Points</u>	<u>Rate</u>			
0	Basic rate less 10% *			
1	Basic rate	increased		5%
2	"	"	"	20%
3	"	"	"	35%
4	"	"	"	50%
5	"	"	"	75%
6	"	"	"	100%
7	"	"	"	125%
8 or more	"	"	"	150%

*Basic rate without discount if principal operator has not been licensed three years.

How many points and credits. -- To what extent the 1963 Safe-Driver Insurance Plan affects premiums paid by North Carolina insureds is illustrated by the following table showing how non-fleet private passenger automobiles, insurance for which was written during the fourth quarter of 1964, were divided according to number of points.

NORTH CAROLINA DISTRIBUTION BY S.D.I.P. POINTS

Fourth Quarter - 1964

(1) Points	(2) No. of Cars	(3) Per Cent of Total Cars	(4) P.D.Premium	(5) Rate Factor	(6) Premium Rate Factor
0	357,704	89.4%	\$5,406,674	.90	\$6,007,416
1	22,603	5.6	500,600	1.05	476,762
2	2,715	0.7	73,018	1.20	60,848
3	2,396	0.6	77,453	1.35	57,373
4	1,294	0.3	44,960	1.50	29,973
5	333	0.1	12,923	1.75	7,385
6 or more	1,965	0.5	77,207	2.25 (c)	34,314
0 (a)	6,567	1.6	201,657	1.00	201,657
NA (b)	4,650	1.2	109,093	1.00	109,093
	<u>400,227</u>	<u>100.0%</u>	<u>\$6,503,585</u>	<u>.93</u>	<u>\$6,984,821</u>

- (a) Principal operator not licensed three years.
- (b) Safe-Driver Insurance Plan not applicable - vehicle owned by partnership or corporation.
- (c) Combining those having 6, 7 and 8 points, rate factors of 2.00, 2.25 and 2.50 respectively.

The total "Rate Factor" of .93 (Column 5) has been determined by comparing the total actual premium (Column 4) with the total premium that all of these insureds would have paid (Column 6) if all insureds had been charged "basic" or "manual" rates. This shows that the rate credits granted under the 1963 Safe-Driver Insurance Plan to the 894 out of 1,000 insureds who earned the credit more than offset the rate surcharges paid under

the Plan by the 78 out of 1,000 insureds who were assigned points. The aggregate credits exceeded the aggregate debits by seven percentage points: $1.00 - .93 = 7\%$. Under the 1961 Plan, 828 out of 1,000 insureds earned the ten per cent "safe driver" credit and 131 out of 1,000 were assigned points. Credits exceeded debits by only four percentage points.

This effect of any insurance rating plan on total premium, where credits and debits are not offsetting, is called "off-balance". Since it obviously takes some number of premium dollars to pay losses and expenses and to provide for a reasonable profit in connection with providing and servicing private passenger automobile liability insurance in this State, any off-balance must be offset by rate level adjustment. Where the off-balance is a credit, both credits and debits in the rating plan will be applied to a higher level of basic rates.

Premium distribution. -- The above distribution by Safe-Driver Insurance Plan point category also reveals the following facts about how the Plan works:

1. The owners of the 89.4% of the vehicles subject to the "safe driver credit" pay

about 83% of the premium. Under the 1961 Plan, the 82.8% who earned the credit paid only 74% of the premium.

2. The owners of the 7.8% of the vehicles subject to rate surcharge because of applicable points pay 12% of the premium. Under the 1961 Plan the owners of 13.1% of the vehicles subject to higher rates because of point assignment paid almost 20% of the total premium.

Results. -- Experience with the Safe-Driver Insurance Plans in this State simply verify the results of the previous studies:

NORTH CAROLINA PRIVATE PASSENGER AUTOMOBILE
LIABILITY INSURANCE

Claims Per 100 Cars Insured

<u>Year</u>	<u>Points</u>		<u>No Points</u>	
	<u>B.I.</u>	<u>P. D.</u>	<u>B.I.</u>	<u>P.D.</u>
1962	3.2	11.7	1.9	6.3
1963	3.3	12.6	2.0	6.3
1964	4.1	15.0	2.1	6.7

Average number of claims per 100 cars insured during the period was about twice as high among insureds paying increased premium because of point assignment under the Plan as among the other insureds. The data for accident years 1963 and 1964 are not separable as to whether

points were assigned under the 1961 Plan or the 1963 Plan. The 1961 Plan was effective until September 1, 1963, and some policies rated under the 1961 Plan were in effect in 1964.

Premium redistribution. -- As shown above, the 1963 Safe-Driver Insurance Plan provides for the assignment of fewer points especially in connection with the less serious but more numerous motor vehicle violations and in connection with accident involvement. The 1963 Plan brought about no change in the rating value of points.

The following four actual cases rated under the 1963 Plan shortly after it became effective illustrate how the automobile liability insurance premiums of four North Carolina insureds were affected by the revised Plan:

1. Insured -- G. E., Charlotte

<u>Points</u> <u>1961 Plan</u>	<u>Points</u> <u>1963 Plan</u>	
-	-	8-61 Speeding 45 in 35 zone
<u>1</u>	<u>-</u>	10-62 Stop light violation
1	0	
1.05 of basic rate	.90 of basic rate	Reduction of 14%

2. Insured -- J. H., Hendersonville

<u>Points</u> <u>1961 Plan</u>	<u>Points</u> <u>1963 Plan</u>	
-	-	5-61 Speeding 45 in 35 zone
1	-	5-62 Speeding 55 in 45 zone
2	1	6-62 Chargeable accident (BI and PD)
<u>1</u>	<u>-</u>	2-63 Speeding 55 in 45 zone
4	1	

1.50 of 1.05 of Reduction of 30%
basic rate basic rate

3. Insured -- S. D., Charlotte

<u>Points</u> <u>1961 Plan</u>	<u>Points</u> <u>1963 Plan</u>	
-	-	1-61 Speeding 35 in 20 zone
1	-	2-61 Speeding 55 in 45 zone
3	3	2-61 Reckless driving
1	-	2-63 Failure to yield
<u>2</u>	<u>1</u>	2-63 Chargeable accident (BI and PD)
7	4	

2.25 of 1.50 of Reduction of 33%
basic rate basic rate

4. Insured -- G. H., Raleigh

<u>Points</u> <u>1961 Plan</u>	<u>Points</u> <u>1963 Plan</u>	
-	-	10-60 Speeding 52 in 35 zone
1	-	2-61 Speeding 45 in 35 zone
3	1	5-61 Improper passing
1	-	11-61 Speeding 48 in 35 zone
1	-	2-61 Speeding 75 in 60 zone
<u>2</u>	<u>1</u>	2-62 Chargeable accident (\$175 PD)
8	2	

2.50 of 1.20 of Reduction of 52%
basic rate basic rate

There are now many insureds who have had three, four, five or more moving traffic violations during the last three years and who are receiving the same "safe driver" credit as are insureds who have never received a traffic ticket.

No one pays a higher surcharge under the 1963 Plan than was done under the 1961 Plan. Since many insureds pay a lower surcharge and since more insureds now qualify for the "safe driver" credit, the result of the 1963 Plan change is that a larger share of the premium burden is now borne by those who have clean driving records.

REVOCATION OF REGISTRATION AND DRIVERS LICENSE WHEN
FINANCIAL RESPONSIBILITY NOT IN EFFECT

The 1965 General Assembly by Senate Bill No. 441 amended G. S. 20-309(e) in Section 2 thereof as follows:

Sec. 2. Subsection (e) of G. S. 20-309, as the same appears in the 1963 Cumulative Supplement to Recompile Volume 1C of the General Statutes, is hereby amended by adding at the end thereof the following:

"The Department of Motor Vehicles upon receiving notice of cancellation or termination of an owner's financial responsibility as required by this Article, shall notify such owner of such cancellation or termination, and such owner shall, to retain the registration plate for the vehicle registered or required to be registered, within 15 days from date of notice given by the Department, certify to the Department that he has financial responsibility effective on or prior to the date of such cancellation or termination. Failure by the owner to certify that he has financial responsibility as herein required shall be prima-facie evidence that no financial responsibility exists with regard to the vehicle concerned, and, unless the owner's registration plate has been forwarded to the Department of Motor Vehicles, the Department of Motor Vehicles shall revoke the owner's registration plate and suspend his operator's license for 30 days. In no case shall any vehicle, the registration of which has been revoked for failure to have financial responsibility, be reregistered in the name of the registered owner, his spouse, or any child of the spouse, or any child of such owner, within less than 30 days after the date of receipt of the registration plate and operator's license by the Department. As a condition precedent to the reregistration of the vehicle, the owner shall pay the appropriate fee for a new registration plate."

More time was taken up by the Commission in connection with this particular section of the General Statutes than any other one. Although every case reported was as an "extreme hardship case", after listening to the facts and hearing all of the evidence

given in support of the hardship, each simply boiled down to the fact that people had procrastinated and had failed to re-certify their insurance coverage within the time required or to set in motion the machinery necessary to get insurance within the time allotted. In many cases the insured had actually misstated the conditions to the Motor Vehicles Department in the first report of the hardship.

It is the opinion of the Commission that this Statute should be kept intact insofar as possible, and that we should be extremely cautious not to throw every case open to hearing and decision by some administrative officer. As has been stated before in this report, during the 1965 Session of the General Assembly, we were told that about ninety-two (92%) per cent of the people operating motor vehicles registered in North Carolina were complying with the financial responsibility and compulsory insurance laws. As was also stated, at the present time, from the best evidence that can be assembled, approximately ninety-seven (97%) per cent of the people operating motor vehicles registered in North Carolina are complying with the same laws. This

Commission is convinced that the increased compliance is a direct result of the "get-tough" policy on persons who fail to maintain continuous coverage.

In the earlier days in the enforcement of this particular section, it seemed almost impossible to handle the volume of cases which came before the Motor Vehicles Commissioner. Today, this has diminished and we think that the "shake-down cruise" is now an accomplished fact, and that the people of North Carolina finally realize that we mean business when we require the filing of evidence of financial responsibility and maintenance of continuous coverage.

CANCELLATIONS

Cancellation of automobile liability insurance policies in this state has been a widespread complaint and was an important subject properly brought to the attention of this Commission. While this subject will always continue to be a source of concern and may even always continue to be a widespread and, yes, even a popular complaint against our present plan of financial

responsibility and compulsory insurance, it is felt by the Commission that the problem is largely exaggerated and somewhat out of proportion to the facts in the situation. A study by the Honorable Edwin S. Lanier, Commissioner of Insurance of North Carolina, announced the results of a study of such cancellations for private passenger cars during the months of April through December, 1965, inclusive. He stated:

"Under North Carolina law, an insurance company can cancel a policy of liability insurance during the first sixty (60) days of the policy period without disclosing to the insured reason for the cancellation. Thereafter, cancellation can be made only for certain reasons set forth in law. The company can also refuse to renew a policy. However, upon written request made by the insured within five (5) days after receipt of notice from the insurer of its intention not to renew, the insurer must, under the law, state in writing its reason or reasons for not renewing the insurance coverage.

In March, 1965 Commissioner Lanier called on all insurance companies selling automobile liability insurance in North Carolina to furnish the North Carolina Insurance Department statistics regarding termination of automobile liability insurance policies in North Carolina. Widespread complaints about cancellation of some people's automobile liability insurance policies made members of the General Assembly, the public, and the Commissioner want the facts about the situation.

The study deals with two groups of cancellation: (1) cancellations and non-renewals made on motion of the insurance companies; and (2) cancellations and non-renewals made on motion of the owners of private passenger cars.

For the months of April - December, 1965, cancellations during the initial 60-day period of the insurance policies totaled 23,853, and the non-renewal of policies totaled 25,492. The combined total of the "within-first-sixty-days" cancellations and the non-renewals is equivalent to a cancellation and non-renewal rate of 4.7% per year of the approximately 1,400,000 private passenger automobile liability insurance policies (many covering more than one vehicle). In other words, in 1965 for every 1,000 private passenger automobile liability insurance policies, 47 were cancelled or not renewed by choice and act of the insurance companies.

Then there were cancellations and non-renewal of automobile liability insurance policies made on choice by and/or act of the insureds.

Based on the approximately 1,400,000 private passenger automobile liability insurance policies, there were 119,252 cancellations and non-renewals for the months of April - December, 1965 inclusive, which is equivalent to a cancellation and non-renewal by insureds at a rate of 11.3% per year. A large part of the cancellations in this group were in the Assigned Risk category, and the cancellations were made under the Power of Attorney authority given premium finance companies by automobile owners who borrowed money from the premium finance companies to pay their premiums, and who defaulted in making their scheduled payments.

Finally, there were 87,306 cancellations and non-renewals during the nine months period by act

or no action of the owners of cars for such reasons as: car was sold; car was junked; owner moved to another state, etc. On an annual basis, 8.3% were in this group."

The Commission concludes that no remedial legislation is needed in this area except insofar as a continuing study may aid in reducing problems in the area of premium financing cancellations.

ASSIGNED RISK PLAN

The North Carolina Automobile Assigned Risk Plan has as its dual purpose to provide a means whereby motorists who are not exempt from the North Carolina Financial Responsibility Laws and who are unable to purchase automobile liability insurance in the regular market may apply for and obtain such insurance, and to provide for equitable distribution of these applications for insurance among the insurance companies writing such insurance in North Carolina. The assigned risk plan has been in existence for the same purposes since 1947, when the first North Carolina Financial

Responsibility law was enacted. Its operating expenses are paid by the insurance carriers through the North Carolina Automobile Rate Administrative Office.

The North Carolina Automobile Assigned Risk Plan was not the first assigned risk plan, nor is it unique in its concept or operation. There is an automobile assigned risk plan serving the same purposes for each of the other states, and according to the information that can be compiled by this Commission and all who have assisted it, the other states are having the same problems that this state is having.

We do believe, however, that a realistic approach to solving the problem of rating for automobile insurance purposes to the risk involved by a courageous approach to the safe-driver insurance plan will relieve some of the problems involved in the assigned risk plan. While it is true that in 1964 it was determined that some 17.6% of the non-fleet private passenger cars registered in North Carolina were in the assigned risk plan and that 70% of the drivers in the plan enjoyed the so-called "clean driving record" and accordingly

qualified for the safe-driver credit or minimum premium, a large number of these same drivers have had from one to several traffic violations charged on the records of the Motor Vehicles Department. The present safe-driver plan does not adequately reflect the driving record of these persons who, experience and studies have shown, are more prone to accidents than those without traffic violations. There are cases on record where the drivers license has been suspended by the Motor Vehicles Department for cumulative violations, and yet the same person has no points under the safe-driver plan and still enjoys the minimum rate.

It is suggested that the Assigned Risk Plan is overpopulated; however, we would propose that to reduce the population in this plan, we must adopt some realistic incentive to the driver and to the insurance companies which would entitle the driver to a favorable consideration. We, therefore, suggest that the recommended Commission continue the work of trying to get the insurance companies to come up with some proposal which will help depopulate this assigned risk plan and which will be fair to the insurance carriers as well. We also suggest

that the assigned risk plan actually have its name changed so as to eliminate from the driver who is put into this plan any social stigma or psychological stigma he may feel is attached.

It should be pointed out in this report that an assigned risk policy costs no more than the same rating classification for a policy written in the voluntary market. Today, the same minimum limits or 10/20/5 are available to the assigned risk applicant upon his request. Under our proposal of increasing minimum limit requirements, the increased cost for any particular premium classification would be the same in the assigned risk as it would be in the voluntary market.

GENERAL FINDINGS

While no recommendations have been made by this Commission in the field of law enforcement or in the investigation by the Insurance Department of irregular actions of some insurance agents handling automobile insurance, we feel that serious thought should be given

to these subjects. With the increased number of drivers and vehicles on the State's highways today and with the many duties handled by the Highway Patrol, we feel that the present force should be substantially increased and that patrolmen be relieved, as far as is possible, of all duties other than the enforcement of traffic laws.

Likewise, the Insurance Department should be adequately staffed to be able to promptly investigate insolvent agents whose irregularities have caused numerous citizens the loss of continuous insurance coverage and the resulting suspension of license and mandatory surrender of automobile license plates.

CONTINUE THE STUDY OF MOTOR VEHICLE FINANCIAL
RESPONSIBILITY AND COMPULSORY INSURANCE

It is the unanimous recommendation of this Commission that the 1967 General Assembly authorize the establishment of a Commission which will succeed this Commission for the purposes of continuing this study; as it is felt

that we do not have the answer to all of the problems, nor will we be able to, in a few short years, attain the kind of results that the public has the right to expect without continuing this study and broadening it into the rights and privileges involved in operating motor vehicles by the citizenry of this State.

The establishment of the District Courts throughout the State will be some help in uniform enforcement of motor vehicle laws, but these courts will not be fully operative until 1971.

The second ray of hope for driving improvement is seen in the work done since 1963 by the North Carolina Motor Vehicles Department in cooperation with a Medical Advisory Board. A program has been launched to review the driving records of persons with physical and mental defects. This study and this research has resulted in the revocation of some drivers licenses and the non-issue of some.

In the very early stages of the Commission's deliberations, we were told by a very prominent citizen of North Carolina that there is a feeling among too many

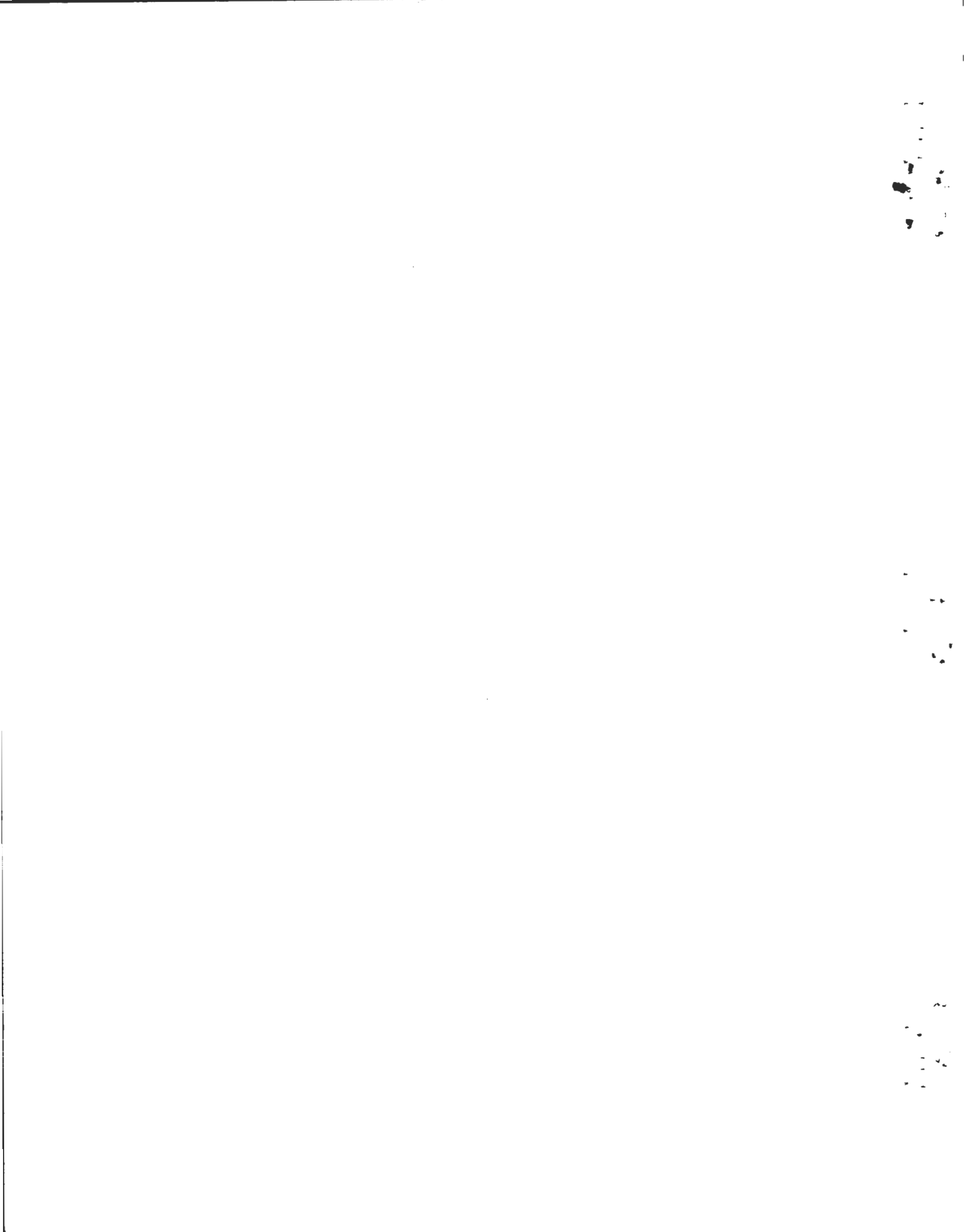
people that they have an inalienable right to operate a motor vehicle and that this had developed an individual and public indifference to this slaughter. There is actually a feeling among some people that the fact that they have insurance releases them from further responsibility for their actions in connection with the operation of a motor vehicle. There is also evidence that hit-and-run violations are on the increase. We think that there is some relation between this and our compulsory insurance laws.

Our recommendations as contained in this report will be implemented by bills for presentation to the Legislature. However, these bills, if adopted, will only alleviate the problems relating to financial responsibility and compulsory insurance. This Commission is keenly aware that unless something more is done by the Legislature to bring about a change in the attitude of those individuals who operate motor vehicles carelessly and recklessly, this implementation will have gone for nought. The General Assembly should emphasize with action that driving a car is a privilege

granted by the State and not an inalienable right conferred on a citizen. Violations of this privilege must be promptly and decisively dealt with and continued violations must result in prolonged suspension, or even permanent revocation, of this privilege. Penalties for violations must have greater and more direct reflection in insurance rates; those responsible for accidents or with a record of violations should pay a greater proportion of the cost than those with no violations.

Yes, the automobile insurance financial responsibility situation is, in the words of some who appeared before our Commission, somewhat in an untidy mess; not because of the insurance industry; not because of the Motor Vehicles Department; not because of our law enforcement officers or the Courts. not because of our Assigned Risk Bureau or the North Carolina Insurance Department; but because of the acts of many irresponsible motor vehicle operators, their basic operating attitude and the manner in which they can get by with this attitude even when it results in death or destruction of property. We, of this Commission, believe this strongly

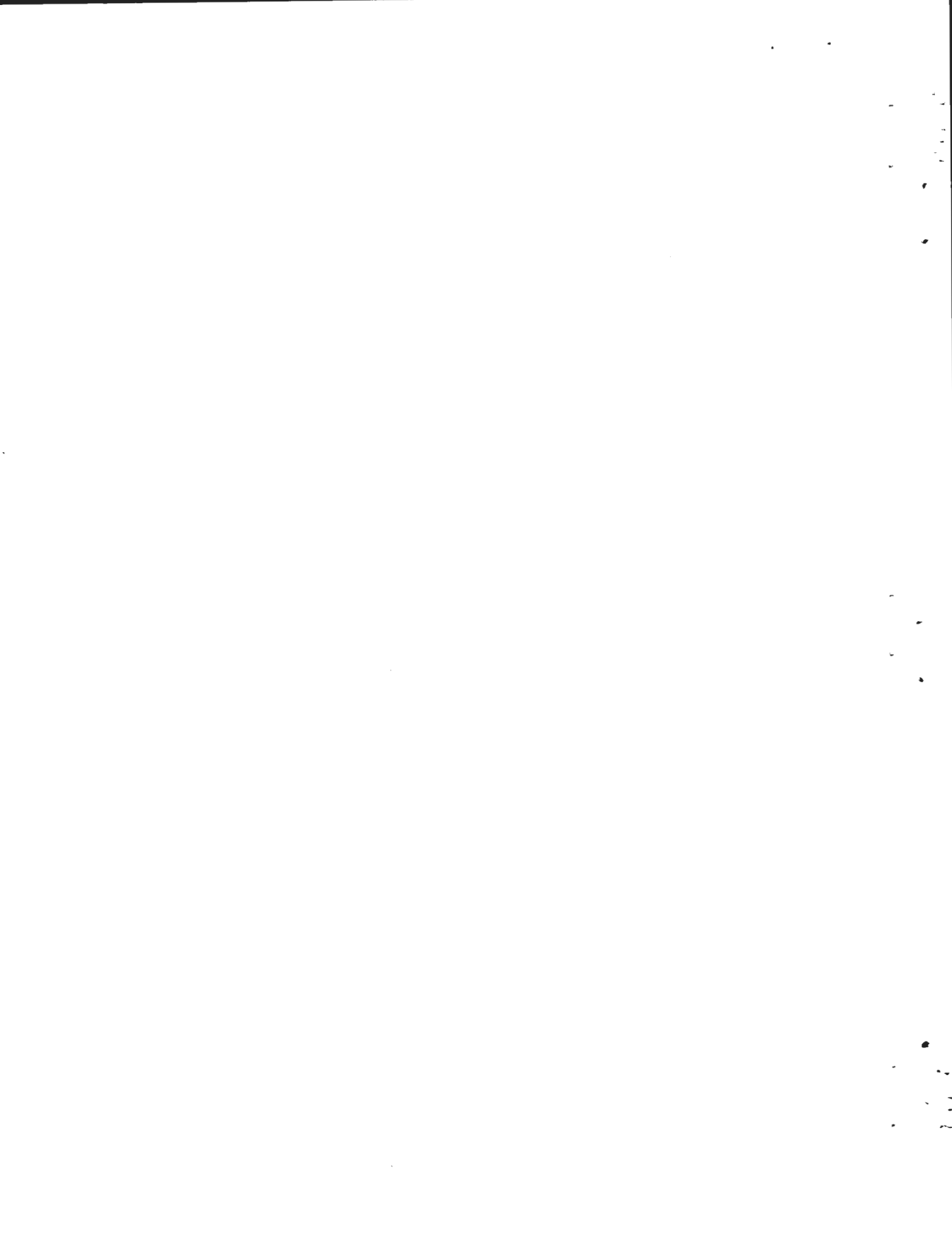
and we further believe that if the members of the General Assembly will also believe this strongly enough to pass laws oriented in this direction, North Carolina will be well on its way toward solving this great social problem - the disease which has been referred to earlier in this report.



Appendix A

COMPARISON OF NORTH CAROLINA ANNUAL RATES
FOR \$5,000/\$10,000/\$5,000 and \$10,000/\$20,000/\$5,000
AUTOMOBILE LIABILITY INSURANCE FOR PRIVATE PASSENGER CARS

<u>Class</u>	<u>Safe Driver Plan Sub-Class</u>	<u>Rating Territory</u>	<u>5/10/5 Rate</u>	<u>10/20/5 Rate</u>	<u>Difference</u>
1A	0	All	\$ 45.00	\$ 50.20	\$ 5.20
	2	"	60.00	67.00	7.00
	5	"	88.00	98.20	10.20
	8	"	126.00	140.60	14.60
1B	0	11-18	50.00	55.80	5.80
	2	"	66.00	73.60	7.60
	5	"	96.00	107.20	11.20
	8	"	138.00	154.00	16.00
1B	0	19-24	45.00	50.20	5.20
	2	"	60.00	67.00	7.00
	5	"	88.00	98.20	10.20
	8	"	126.00	140.60	14.60
1C	0	All	65.00	72.60	7.60
	2	"	86.00	96.00	10.00
	5	"	127.00	141.80	14.80
	8	"	180.00	201.00	21.00
2A	0	All	86.00	96.00	10.00
	2	"	114.00	127.20	13.20
	5	"	166.00	185.20	19.20
	8	"	238.00	265.60	27.60
2C	0	11-18	140.00	156.20	16.20
	2	"	186.00	207.60	21.60
	5	"	272.00	303.60	31.60
	8	"	388.00	433.00	45.00
2C	0	19-24	162.00	180.80	18.80
	2	"	216.00	241.00	25.00
	5	"	315.00	351.40	36.40
	8	"	450.00	502.00	52.00
3	0	All	69.00	77.00	8.00
	2	"	91.00	101.60	10.60
	5	"	133.00	148.40	15.40
	8	"	190.00	212.00	22.00
1AF	0	All	34.00	38.00	4.00
	2	"	45.00	50.20	5.20
	5	"	67.00	74.80	7.80
	8	"	95.00	106.00	11.00
2AF	0	All	64.00	71.40	7.40
	2	"	85.00	94.80	9.80
	5	"	125.00	139.40	14.40
	8	"	178.00	198.60	20.60
2CF	0	11-18	105.00	117.20	12.20
	2	"	141.00	157.40	16.40
	5	"	205.00	228.80	23.80
	8	"	293.00	327.00	34.00
2CF	0	19-24	121.00	135.00	14.00
	2	"	162.00	180.80	18.80
	5	"	237.00	264.40	27.40
	8	"	338.00	377.00	39.00



Appendix B

AUTOMOBILE LIABILITY INSURANCE - PRIVATE PASSENGER CARS

AVERAGE PAID CLAIM COST DATA

North Carolina

(1) Year Ended	(2) Paid Losses*	(3) Number of Paid Claims	(4) Average Paid Claim Cost (2) + (3)	(5) Paid Losses*	(6) Number of Paid Claims	(7) Average Paid Claim Cost (5) + (6)
<u>Bodily Injury (Basic Limits):</u> Ø				<u>Property Damage (Total Limits)</u>		
3-31-63	\$25,005,574	27,162	\$921	\$16,256,747	87,352	\$186
6-30-63	25,721,525	27,213	945	16,649,395	88,173	189
9-30-63	26,194,107	27,924	938	17,195,114	89,990	191
12-31-63	26,844,094	28,388	946	17,741,267	91,870	193
3-31-64	27,598,271	29,309	942	18,643,721	95,515	195
6-30-64	28,211,521	30,924	912	19,643,316	99,377	198
9-30-64	28,718,302	31,874	901	20,360,296	102,288	199
12-31-64	29,330,941	32,852	893	21,401,445	105,786	202
3-31-65	29,710,732	33,490	887	21,809,603	106,825	204
6-30-65	30,622,470	33,780	907	22,364,214	107,473	208
9-30-65	31,436,367	33,827	929	22,900,920	108,300	211
12-31-65	32,530,751	34,388	946	23,266,101	108,176	215

Virginia

3-31-63	\$23,159,282	20,607	\$1,124	\$13,929,818	81,144	\$172
6-30-63	24,508,925	21,132	1,160	14,269,485	81,799	174
9-30-63	24,874,782	21,195	1,174	14,467,194	82,647	175
12-31-63	25,519,193	21,489	1,188	14,797,358	83,470	177
3-31-64	26,693,929	22,447	1,189	15,235,149	85,169	179
6-30-64	26,683,518	23,128	1,154	15,739,308	87,558	180
9-30-64	27,511,551	23,826	1,155	16,313,029	89,555	182
12-31-64	28,245,574	24,475	1,154	16,725,531	90,670	184
3-31-65	28,549,181	24,613	1,160	17,062,802	89,609	190
6-30-65	29,341,016	24,713	1,187	17,347,890	89,964	193
9-30-65	29,183,722	24,908	1,172	17,759,741	90,285	197
12-31-65	29,254,373	25,220	1,160	18,285,047	90,751	201

* Including loss adjustment expenses.

Ø Bodily Injury losses limited to \$5,000 on each loss payment, excluding amounts over \$5,000.



Appendix C

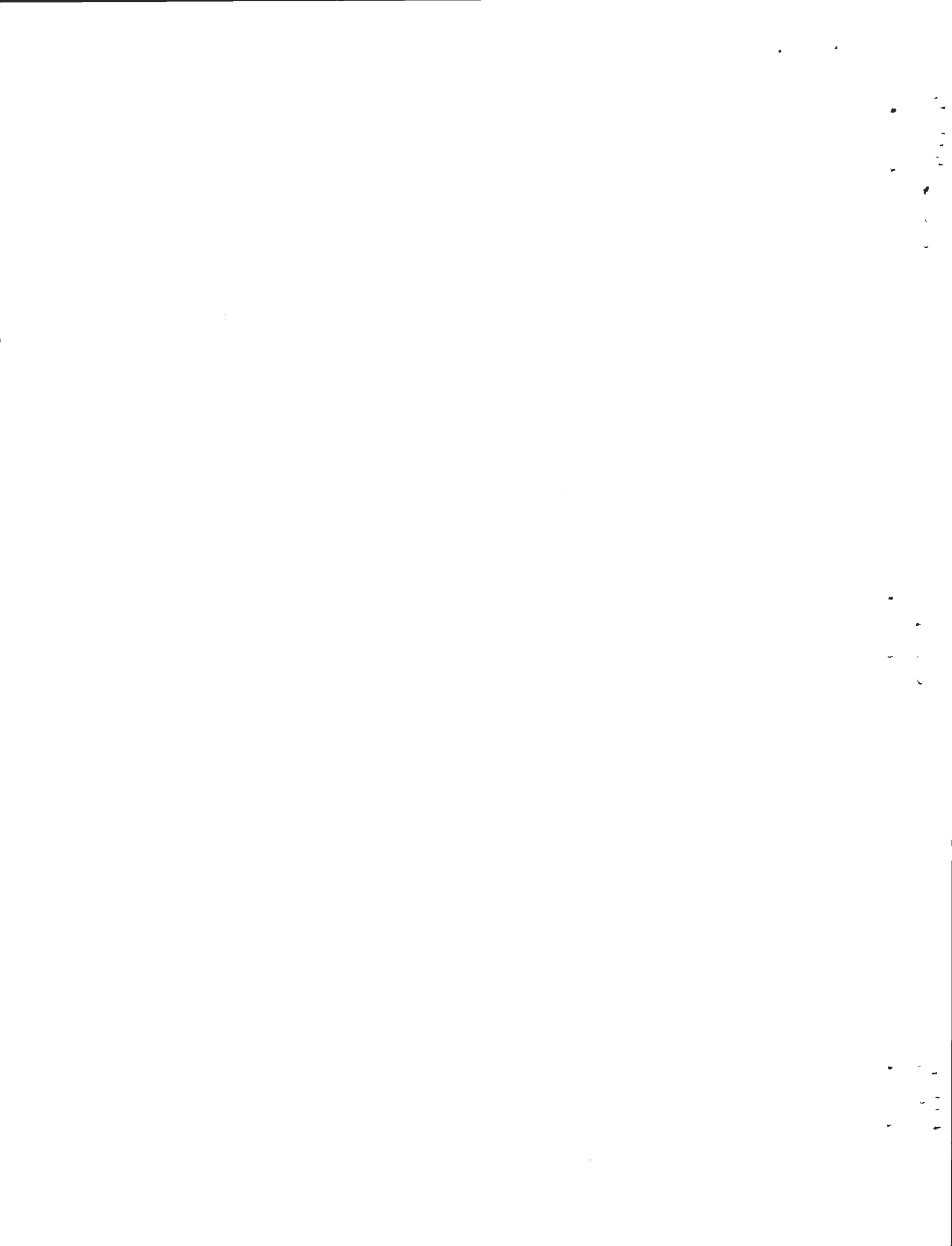
FINANCIAL RESPONSIBILITY REQUIREMENTS

5/10	Massachusetts
5/10/1 *	Louisiana Montana
5/10/5	Mississippi North Carolina Oklahoma Oregon
10/20/1	Rhode Island
10/20/2	Missouri
10/20/5	Alabama Alaska Arizona Arkansas California Colorado Delaware Florida Georgia Hawaii Idaho Illinois Indiana Iowa Kansas Kentucky Maine Maryland Michigan Minnesota Nebraska Nevada New Hampshire New Jersey New Mexico New York North Dakota Ohio Pennsylvania South Carolina South Dakota Tennessee Texas Utah Vermont Washington West Virginia Wisconsin Wyoming District of Columbia
15/30/5	Virginia
20/20/1	Connecticut

* The first two figures refer to bodily injury liability limits and the third figure to property damage liability. For example, 5/10/1 means coverage up to \$10,000 for all persons injured in an accident, subject to a limit of \$5,000 for one individual; and \$1,000 coverage for property damage.

CANADA

\$35,000 inclusive	Alberta Manitoba New Brunswick Newfoundland Nova Scotia Ontario Prince Edward Island Quebec Saskatchewan
\$50,000 inclusive	British Columbia
10/20/5	Northwest Territories
20/20/2	Yukon



Appendix C

FINANCIAL RESPONSIBILITY REQUIREMENTS

5/10	Massachusetts
5/10/1 *	Louisiana Montana
5/10/5	Mississippi North Carolina Oklahoma Oregon
10/20/1	Rhode Island
10/20/2	Missouri
10/20/5	Alabama Alaska Arizona Arkansas California Colorado Delaware Florida Georgia Hawaii Idaho Illinois Indiana Iowa Kansas Kentucky Maine Maryland Michigan Minnesota Nebraska Nevada New Hampshire New Jersey New Mexico New York North Dakota Ohio Pennsylvania South Carolina South Dakota Tennessee Texas Utah Vermont Washington West Virginia Wisconsin Wyoming District of Columbia
15/30/5	Virginia
20/20/1	Connecticut

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LEGISLATIVE LIBRARY