

Lundby, Kirk

From: Bruce Spencer [bspencer@smithlawmt.com]
Sent: Wednesday, January 26, 2011 1:47 PM
To: Lundby, Kirk
Cc: sonjunt@yahoo.com
Subject: SB 111
Attachments: SB 111 No Pay No Play letter.pdf

EXHIBIT NO. 17DATE: 1-27-2011BILL NO. SB 111

Mr. Lundby:

I wanted to provide the committee with some additional information regarding Sen. Sonju's bill on non-economic damages. Perhaps you would be good enough to share this e-mail with the committee.

Attached is a letter from me regarding the matter and some information on what other states have concerning no pay/ no play.

Some mention was made of a Texas study at the hearing. That study can be viewed at the following link:

http://www.rand.org/pubs/issue_papers/IP174/index2.html

Relevant language from the study echos insurance industry testimony at the hearing and states:

"Our analyses suggest that the no-pay/no-play insurance plan could reduce the costs of auto insurance. If current claiming, negotiating, and insurance purchasing patterns persist, the plan would reduce auto insurers' compensation costs for personal injuries by about 6 percent from the costs under Texas's current auto insurance rules. Given the past relationship between compensation costs and auto insurance premiums in Texas, this difference would translate into a reduction of about 3 percent in the average Texas driver's auto insurance premiums. To put this estimate in perspective, if the plan had been in force in 1996, the most recent year for which we have data on total auto insurance premiums,[3] Texas drivers' auto insurance premiums would have been about \$182 million lower, a reduction of roughly \$23 in the average Texas driver's auto insurance costs. Our results address relative costs; they show the difference between what will happen if the current system is retained and what would occur if the proposal were adopted. We do not suggest that auto insurance costs will necessarily fall if Texas adopts such a plan. For example, the plan may not reverse the long-term trend toward higher auto insurance costs. Rather, it is possible that no-pay/no-play provisions will slow the rate of growth in premiums so, over time, premiums would be roughly 3 percent less, on average, than they would be if the current system is not modified.

It should also be noted that our results address the effects of the plan on the average Texas driver. Both the expected costs of insuring a driver under the current auto insurance system and the likely effects of the plan vary from one driver to another, depending on a driver's risk factors and the coverages and policy limits purchased. For example, the savings that would result from limiting compensation to uninsured drivers injured in auto accidents would be greater in those communities in which the uninsured motorist rate is higher. Similarly, because the plan does not affect the costs of collision and comprehensive coverages, the relative savings would be greater for drivers who purchase only the personal injury and property damage liability coverages."

Sincerely,



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