

HOUSE RESEARCH

August 1987

Information Brief

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296-1885

AUTOMOBILE INSURANCE NO-FAULT UPDATE: 1987

This information brief summarizes Minnesota's automobile insurance law. Its focus is on four automobile insurance bills proposed in the 1987 session: two bills on underinsured motorist coverage, and two bills on mandatory arbitration of no-fault claims.

I. MINNESOTA AUTOMOBILE INSURANCE

Minnesota requires no-fault, liability, underinsured and uninsured coverage for every automobile.

No-Fault

No-fault pays for certain specified losses due to personal injuries suffered by the insured driver and the insured's family in any vehicle and by other passengers in the insured's vehicle without regard to who is at fault in causing the accident. No-fault covers up to \$20,000 of medical expenses and up to \$20,000 for disability and income loss.

Liability

Liability coverage pays for the personal injuries of other people and damage to their property caused by the fault of an insured driver. This pays, at a minimum, up to \$30,000 for one person in an accident, and \$60,000 for two or more persons in one accident. Liability covers unpaid medical bills and loss of income, as well as pain and suffering.

Uninsured and Underinsured Coverage

Uninsured and underinsured coverage pays for the personal injuries suffered by the insured's driver, the insured's family and other passengers in the insured's vehicle that are caused by the fault of an uninsured or underinsured driver. Uninsured and underinsured coverage provides, at a minimum, limits of \$25,000 for one person and \$50,000 for two or more persons in an accident.

● Uninsured driver

An uninsured driver is a person who has no liability coverage to pay for the damages s/he causes to others. This includes an unknown driver in a "hit and run" situation.

● Underinsured driver

An underinsured driver has some liability insurance, but the amount of that coverage is less than the amount needed to compensate the insured person for actual damages.

No-Fault Bills related to uninsured and underinsured coverage:
House Files 599 and 1021 (see the chart, section III)

The 'Difference of Limits' Method.

Under the current law, the underinsured motorist coverage only pays for the difference between its maximum coverage and the maximum liability insurance of the at-fault driver. Using the above example with maximum coverages of \$25,000 underinsurance and \$30,000 liability, there will be no difference in the maximum limits.

In a typical accident involving two cars and two drivers, each of whom has only the insurance required by the no-fault law, there will be no underinsured motorist coverage:

\$25,000 Underinsured motorist coverage
-\$30,000 Liability insurance
-\$ 5,000

In other words, because the liability insurance exceeds the underinsured motorist coverage, nothing is payable under the underinsured motorist coverage.

Cost Savings for Higher Optional Coverage

The only people affected by the expansion of uninsured motorist coverage to include underinsured motorist coverage are those who choose to increase this new coverage above the \$25,000 per person limit required by the no-fault law. In fact, the uninsured/underinsured motorist coverage must be increased above the \$30,000 per person liability limit in order for the underinsured coverage to come into play. For example, if the policyholder has chosen \$100,000 of uninsured/underinsured motorist coverage, then the underinsured motorist coverage will provide \$70,000 of coverage when the other driver is at fault and the other driver has the standard liability coverage required by the law:

\$100,000 Underinsured motorist coverage

-\$ 30,000 Liability coverage

\$ 70,000

The first \$30,000 of damages is paid by the other driver's liability insurance, while the remaining \$70,000 is paid by the policyholder's underinsured motorist coverage.

● The 'Add-On' Method

Under the proposed law, H.F. 1021, the underinsured motorist coverage will be added on top of the liability insurance of the at-fault driver. For example, if the underinsured motorist coverage was \$25,000 and the at-fault driver had liability insurance of \$30,000, a total of \$55,000 would be available.

- H.F. 599 repeals the mandatory uninsured and underinsured coverage.

II. MANDATORY ARBITRATION

Arbitration

All claims for no-fault benefits or comprehensive or collision damage coverage where the claim at the commencement of arbitration is \$5,000 or less are subject to mandatory arbitration. This has the effect of diverting small claims from the more expensive court system into the less expensive arbitration system.

No-Fault Bills Related to Mandatory Arbitration: House Files 971 and 1227 (See the chart, section III)

- H.F. 971 removes the \$5,000 limit for the mandatory submission to no-fault arbitration. Therefore, all cases where a claim is made under section 65B.525, subdivision 1, would be required to submit to arbitration.
- H.F. 1227 raises the cap for mandatory submission to arbitration from \$5,000 to \$10,000 so that only those claims \$10,000 or less are required to submit to arbitration.

III. COMPARISON OF NO-FAULT BILLS

	§65B.49, 3a H.F. 599	§65B.525, 1 H.F. 971	§65B.49, 4a H.F. 1021	§65B.525, 1 H.F. 1227
UNINSURED UNDERINSURED MOTORIST COVERAGE	Repeals the mandatory uninsured and underinsured motorist coverage.		Adds the underinsured motorist coverage on top of the liability insurance of the at-fault driver. This changes the current law which requires underinsurance to pay only for the difference between its maximum coverage and the maximum liability insurance of the at-fault driver.	
MANDATORY ARBITRATION OF NO-FAULT CLAIMS		Removes the \$5,000 limitation on the mandatory arbitration of no-fault claims. Requires the insurer or agent to provide a petition form for initiating arbitration.		Raises the cap for mandatory submission to no-fault arbitration from \$5,000 to \$10,000. Requires the Minnesota Supreme Court to adopt rules providing for the recovery of attorney's fees to the prevailing party.