Manager/Supervisor Risk Management
#10– 12/6/2011

TOPIC: AUTO COVERAGE LIMITS

How much coverage is enough? The question is an important part of a future topic that will address Contract Risk Transfer, but is also an important decision that each driver must make when they buy their own private auto insurance. The State Vehicle Code establishes minimum limits (15/30/5) that are required to meet its standard of "financial responsibility," but those limits have no connection to the driver's, or their employer's, potential exposure. The State's minimum amounts were set decades ago when $15K would cover more than one day in the hospital, and you could buy a new car for under $5K.

You can think about your insurance limits as representing a partial transfer of your risk. Your insurance carrier pays for the losses you cause up to the limits that your premium purchases. While the limits cap the carrier's duty to pay, your obligation can continue on beyond those limits to whatever value the injuries or damages might have; the duty to pay falls from the carrier, and back on you if you are inadequately insured.

Most California public entities, when entering into a contract, require the other party to carry auto liability coverage with "limits of not less than" $1M per occurrence, and many are moving to a requirement of $2M. While that may seem like a lot of money, today few public entities would operate their own vehicles with limits that low. To prove the point, YCPARMIA's largest auto liability settlement, $3.2M, was for head injuries suffered in 1993 by a woman who lost control of her motorcycle after an entity's employee made an unsafe U-turn in front of her. Since then, medical inflation, rising vehicle costs, and generous juries, along with other factors, have combined to significantly increase the potential dollar exposure that drivers face, and the trend continues.

When YCPARMIA was formed in 1979 our initial liability limits were $750K per occurrence. It should be remembered that the formation of YCPARMIA was our member's collective response to being "bare" after the insurance industry's withdrawal from the public entity market; member's assets were potentially exposed while the JPA built up assets to cover the member's pooled/shared risk. In 1986 (with the formation of our excess group) the liability limits were raised to $10M, and in 1999 they were increased again to $15M. 2002 saw the limits rise to $25M, and in 2005 they reached todays limits of $40M per occurrence. Each of these increases, which were typical at the time of pooled limits, was motivated by new "record" settlements or judgments against California public entities. Absent significant tort reform, we can anticipate a continuing trend of increased limits as new larger judgments and settlements trigger the perceived need for higher limits.

Note: that while our member's limits have increased over 5300% since 1979, over the same period of time their collective premium cost, per $100 of payroll, has decreased by 48%.

Next topic: Frequency breeds severity