

Uninsured Motorists in New Mexico

Executive Summary

This study was performed on behalf of a Memorandum of Agreement between the Insurance Division of the State of New Mexico's Public Regulation Commission and New Mexico State University. The parties mutually agreed upon the following:

The Contractor shall perform a study to measure the level of uninsured motorist activity in New Mexico and the United States as a whole. The study shall cover the time-period from 2000 to 2007. As part of this measurement, the study shall answer the following questions:

1. What percentage of vehicles registered in New Mexico is uninsured?
2. What percentage of vehicles registered in United States is uninsured?
3. What percentage of vehicles driven in New Mexico is uninsured?
4. What percentage of vehicles driven in United States is uninsured?
5. If a vehicle driven in New Mexico is struck by another vehicle, what is the likelihood that the other vehicle is uninsured?
6. If a vehicle driven in United States is struck by another vehicle, what is the likelihood that the other vehicle is uninsured?

The study shall provide separate answers for New Mexico and the United States for each year data is available from 2000 to 2007.

Because of inherent biases that on balance would intuitively overestimate the percentage of uninsured motorists in the IRC study using accident data, we expected to see higher numbers across the board in those percentages compared to the IIDB numbers. However, it was also reasonable to anticipate similarities in the trend of uninsured motorists in both measures. The MVD IIDB results show a steep decline in the UM percentage during the first three years of database implementation, and a continuing albeit flattening decline in the percentage through the end of 2008. There was also a significant drop in the UM percentage for 2004 using the IRC accident data, but the last three years ending in 2007 have increased and maintained a level of uninsured motorists that is equal to or above the UM percentage levels prior to full implementation of the database.

Some possible explanations for this divergence in results include:

- Many uninsured cars involved in accidents are also unregistered, so they would appear in the IRC method but not the MVD's.
- The measures provided by the New Mexico MVD are focused on vehicles registered in New Mexico only, and do not factor in out-of-state automobiles that may be uninsured.
- Car-miles on the road driven by young drivers are disproportionately more uninsured than car-miles in general because premiums are higher for these cars. Because accident involvements per million miles are 30 at age 17 and decline (rapidly) to 5 at age 30 where they stay for adult drivers, cars used by younger drivers are over-sampled on the road relative to the overall proportion of car miles driven (Williams, 1999). This age predisposition would bias upward the UM/BI percentage used by IRC as sampling total car-miles driven.
- The nine insurers who participated in the IRC study represent approximately 50 percent of the private passenger auto liability insurance premiums within the United States. Seven of the nine insurers were writing private passenger auto liability premiums in the state of New Mexico in 2007 (the most recent year available), representing an aggregate 53 percent of the market within the state.
- The NM data includes UMPD which is mandatory in NM. The same goes for UIM which is included in NM.
- It is likely that NM has a higher percentage of drivers with low limits due to lower income levels. This would contribute to more UIM claims.

Due to the complexities of uninsured vehicle versus uninsured driver and especially to the significant differences in methodologies, we suggest that neither study's results provide a "true" measure of uninsured motorists in New Mexico. Intuitively, one would expect improvements in the tracking of vehicles that are registered but not insured would be accompanied by a significant decrease in the percentage of uninsured motorists in the state.

Below we answer succinctly and to the best of our ability, given the data collected, the six questions specifically presented to us by the Insurance Division of the state of New Mexico's Public Regulation Commission:

1. What percentage of vehicles registered in New Mexico is uninsured?

Estimates of uninsured registered vehicles in New Mexico began in 2002. Based on data provided by the Motor Vehicle Division, which now collects auto insurance information from Insurance Identification Databases, the percentage of uninsured registered vehicles is estimated to be slightly below 10 percent as of December 2008. This may be significantly different from the percentage of uninsured motorists driving on the roads in New Mexico, however.

2. What percentage of vehicles registered in the United States is uninsured?

We were unable to obtain national figures on the percentage of vehicles registered in the United States that are uninsured. As an admittedly crude proxy, we looked at uninsured rate computations published by the Department of Insurance in the state of California for 2004, the latest year available. Their estimate of uninsured registered vehicles at that time was 14.4 percent. It is our understanding that there has been an attempt to coordinate state databases, but to our knowledge no such national information is currently available.

3. What percentage of vehicles driven in New Mexico is uninsured?

There is no readily available data that delineates uninsured vehicles driven from uninsured registered vehicles. In addition, there is little information on the percentage of cars driven or miles driven in New Mexico from other states, or for that matter, other countries such as Canada and Mexico. The insurance industry convention is that claims incurred anywhere are assigned to the car owner's home address territory. It has been a goal for state MV or DPS administrators to track accidents and violations in other states by state-licensed drivers for decades.

Generally, a best approximation would be somewhere between the estimates provided by the NM MVD and the IRC, in other words somewhere in the range of 10-29 percent, as the number of unregistered vehicles is difficult to estimate.

4. What percentage of vehicles driven in the United States is uninsured?

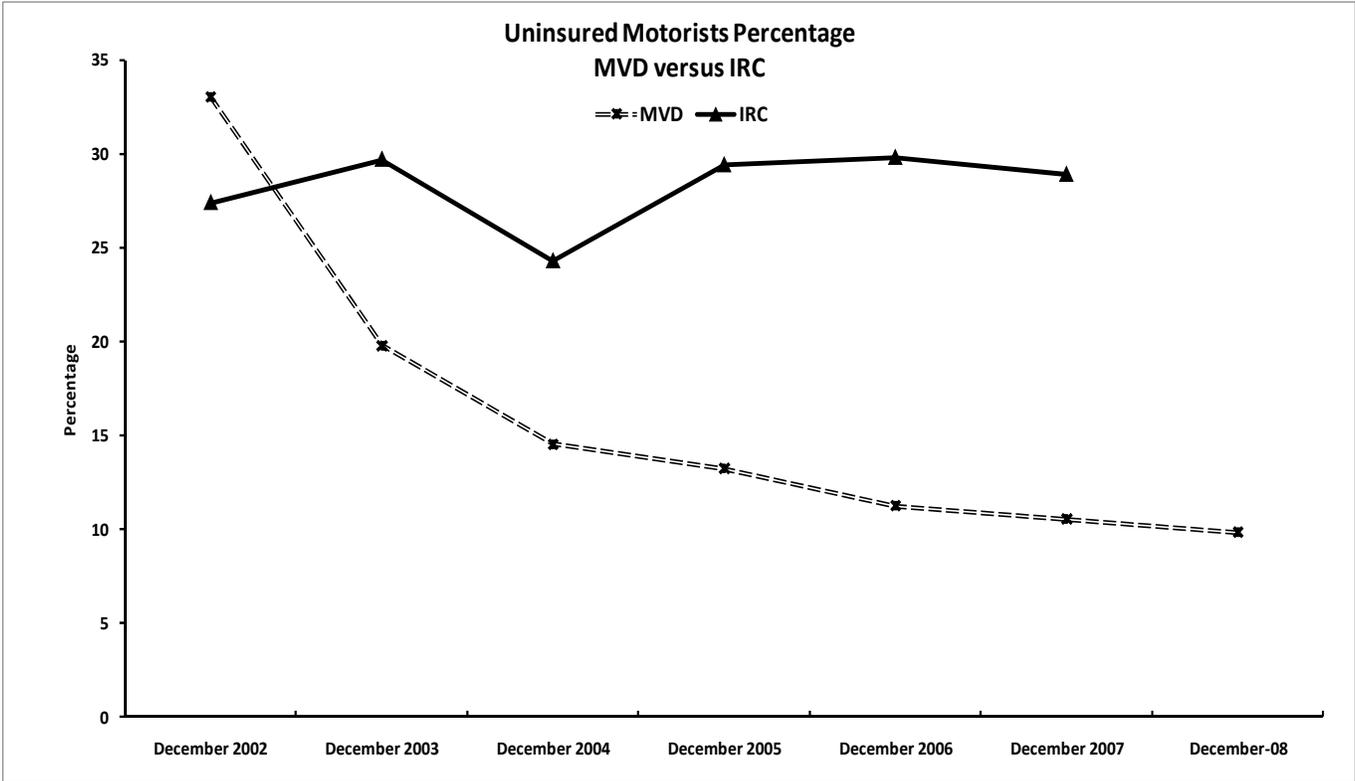
There is a scarcity of data available measuring the percentage of uninsured vehicles driven in the United States. There is no known national database that provides such information at this time.

5. If a vehicle driven in New Mexico is struck by another vehicle, what is the likelihood that the other vehicle is uninsured?

Estimates of the percentage of accidents involving uninsured motorists are provided through the Insurance Research Council study using auto injury claim frequency data. Based on this representative information, we estimate the likelihood of being struck by an uninsured vehicle to be approximately 29 percent in 2007, the latest year of data availability.

6. If a vehicle driven in United States is struck by another vehicle, what is the likelihood that the other vehicle is uninsured?

Using data from the same Insurance Research Council study, we estimate that the likelihood a vehicle driven in the United States is struck by an uninsured vehicle is approximately 14 percent in 2007, the latest year of data availability.



An additional request from the Public Regulatory Commission was to provide an analysis of the relationship between the percentage of uninsured motorists and the uninsured motorist component of the automobile insurance premium. There are a number of factors that are considered in determining appropriately competitive and equitable insurance premiums. Claims data are important direct drivers of the UM portion of the automobile insurance premium. While the frequency of claims has dropped slightly, the severity of claims and total claims costs have increased. In New Mexico, unresolved issues surrounding the “stacking” of policy limits as well as continued attempts to broaden the definition of uninsured motorist coverage through the New Mexico court system have created a level of uncertainty that potentially increases the risk exposure of property-liability insurers.

From an actuarial perspective, there is a lag component to premium adjustments in response to changes in the automobile risk exposure environment. Actuaries will typically use multiple years of data in order to gain an understanding of overall loss costs, as a single year will frequently lack credibility. Other potential factors that may indirectly influence the level of uninsured motorists in New Mexico include the licensing of illegal immigrants, an increasing number of hit-and-run accidents, traffic patterns and a growing population, and issues related to a shared border with Mexico.

Given the results of accident data provided by the Insurance Research Council, coupled with the likely increase in uninsured motorists associated with the rising unemployment rate, we would not expect to see a decrease in the UM component of the automobile insurance policy in the foreseeable future. Of course, circumstances continually change and if the economy rebounds more quickly and robustly than expected, together with successful efforts to improve the tracking of and effective penalties for uninsured motorists, the percentage of uninsured motorists would be expected to decline.

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