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U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20590

TESTIMONY OF ALAN S. BOYD, SECRETARY OF TRANSPORTATION, ON
SENATE JOINT RESOLUTION 129, BEFORE THE SUBCOMMITTEE ON THE
CONSUMER OF THE SENATE COMMITTEE ON COMMERCE, 9:30 A.M., ON
MARCH 12, 1968

Mr. Chairman, Members of the Committee:

Thank you for inviting me to testify on Senate Joint Resolution 129. This resolution authorizes the Department of Transportation, working with the Federal Trade Commission and other government agencies, to undertake a comprehensive study of the motor vehicle accident compensation system. I welcome the proposed study. In a motor vehicle oriented society like ours - where some 100 million autos, trucks, and buses are operated nearly a trillion miles a year by 100 million licensed drivers - it is absolutely essential that we have an efficient, equitable system for providing compensation to those who are injured and to the dependents of those who are killed in accidents.

Since the automobile first came into use as a major form of transportation, we have relied on tort litigation and insurance to provide this compensation. But increasingly - for a host of reasons - the adequacy of the traditional techniques for providing compensation has come under intense challenge. As President Johnson said in his Consumer Interest Message to the Congress on February 6, "Every motorist, every passenger, and every pedestrian is affected by auto insurance - yet the system is over-burdened and unsatisfactory." Auto insurance clearly has become a major national problem - one that will only become more so as we license more drivers, produce more automobiles, and build more roads.

In recent years the Congress has enacted legislation designed to reduce the number of traffic accidents and to curtail the severity of injuries. Passage of the National Traffic and Motor Vehicle Safety Act and the National Highway Safety Act - both signed into law in 1966 by President Johnson - authorized the issuance of vehicle safety standards and provided financial aid for the States in support of highway safety programs. The Department of Transportation is now at work implementing those measures. Much remains to be done, but substantial steps are being taken by my Department, by the States, and by industry to reduce the toll of human life and injury inflicted by vehicle accidents.

Whatever we do to check and reduce the number of auto accidents and to minimize their human consequences, however, they can never completely be eliminated. We must recognize this as a fact and take every step necessary to provide the victims with compensation for their losses.

The scale and importance of the problem is made clear by recalling a few statistics. In 1966 some 53,000 people were killed in traffic accidents. According to the National Safety Council 1.9 million suffered disabling injuries and, of these, 160,000 were left with some permanent impairment. This means that each day on the average there were 145 deaths and over 5,000 disabling injuries directly attributable to motor vehicle accidents. The economic loss of the injured is immense. Medical expense amounted to \$600 million. Actual and anticipated wage losses were estimated at \$2.6 billion. Property losses aggregated an additional \$3.3 billion.

Staggering though it is, the more than \$6 billion in economic losses sustained by individuals does not represent the total cost of auto accidents to society. There are other "hidden" expenses - the cost of operating the courts, investigating accidents, and regulating insurance. The National Safety Council estimates that the insurance companies' own administrative costs alone approached \$3.5 billion in 1966. Partly because of the great expense of administration of insurance - leaving aside the costs borne by all the taxpayers through their support of the court system - it has been estimated that only about half of the premiums collected for auto insurance is paid out in compensation.

As motor vehicle accidents increase - reflecting in part the rising number of automobiles and licensed drivers, and increasing auto use - the costs of providing compensation have followed a steady upward course. The industry, according to published statistics, paid out \$1 billion in accident losses in 1950 and more than \$5 billion in 1965.

Paralleling this rise, auto insurance premiums have soared. Automobile liability insurance net premiums have advanced from \$2.6 billion in 1950 to \$9.2 billion in 1966.

In some areas premiums have gone up more than 30 percent in the last half dozen years. Increases of from \$50 to \$100 in premiums paid by the average family have been common in the period since 1961. This has meant a sharp increase in the cost of operating an automobile, placing particularly great strain on those with lower incomes.

The existing auto insurance system has been criticized on other grounds. Here are a few of the principal allegations that have been made:

- Auto insurance policies are frequently canceled or insurance applications rejected for reasons regarded as either arbitrary or inexplicable. The elderly, the young, members of the military, and Negroes and other members of racial minority groups appear particularly subject to such practices.

- Claims for compensation are processed slowly and inefficiently, often leaving accident victims without means to pay for their medical expenses and to receive proper rehabilitative care.

- The distribution of compensation is uneven and perhaps inequitable. It has been estimated that from 14 to 23 percent of those injured receive nothing. Small injury claims may be over-compensated, larger claims under-compensated.

- Too often recourse must be taken to litigation to receive compensation. Not only is this often protracted and expensive, but it burdens the courts with a great many suits, slowing even more the pace at which disputes can be resolved.

- The legal concept of compensation based solely on fault is said by some critics to be outdated and in need of basic reform.

- Insurance company failures in recent years raise the fear in the minds of many people that they will never be able to obtain compensation, however clear their right to recovery may be. Since 1961 at least 80 companies have been liquidated or have gone into receivership. A 1965 estimate, based only on 58 of these failures, indicated that 300,000 people had stated claims totaling over \$600 million against insurance companies with net assets of no more than \$25 million.

All of these problems and allegations - the soaring premiums, delays in payment, arbitrary cancellations and rejections, insurance insolvencies, and uncertainties about the fairness of distribution of compensation - are individually of great consequence. At the same time, however, they are closely interrelated and only by viewing them in their total perspective can they be properly appraised, evaluated, and where necessary, corrected.

The comprehensive study proposed by Senate Joint Resolution 129 promises to yield a cohesive body of information that should provide a better, more accurate idea of how the existing system works and how it can be improved. The scope of the proposed study will be broad and comprehensive. It will carefully consider the effectiveness of the existing compensation system, explore its strengths and weaknesses, and produce appropriate recommendations for reform. Put in this simple, summary way, the study's actual dimensions and complexities are not fully revealed. Our preliminary evaluation shows, however, that a great amount of factual information must be developed for the first time. No study of automobile insurance as comprehensive as that proposed in the Joint Resolution has ever been conducted in the United States.

Let me give you some idea how we would propose to carry out the study if Congress sees fit to approve the Joint Resolution. In doing so let me emphasize that this study outline is necessarily tentative and subject to change. I would expect the Department would seek the advice of a number of experts in defining the exact final study plan. Those details can more prudently be considered when the Resolution has been adopted and the status of its funding is assured.

As we view it, the study will be divided into four major phases: organization, data collection, analysis, and the formulation of recommendations and a report. The first phase would take 3 to 4 months. In this critical period staff will be selected and basic organizational planning will be completed. The second phase will take approximately a year and will be devoted to the collection of basic research material. Many of the data essential to a sound appraisal of the compensation system will have to be developed through extensive field work, drawing upon the work of statisticians, economists, and other professional personnel. Court records, insurance company statistics, and State insurance commission data, and other sources of information will be examined.

As you can well appreciate, this will be a major undertaking - but I consider it absolutely essential to develop this kind of informational base so that our analysis and

recommendations can be firmly grounded in the facts rather than conjecture and suspicion.

Once the second phase is completed, the third or analytical phase will commence. This will require approximately 7 to 9 months. The information developed in the second phase will be evaluated and such additional information as may be needed will be collected. Special in-depth issue studies will be carried out as warranted by the circumstances. The fourth phase, running 3 to 5 months, will involve the formulation of recommendations and the preparation of an extensive final report.

You will note that the sum of the separate periods I have indicated substantially exceeds 24 months. While the net period can be shortened by overlapping certain of the functions, we feel that an inquiry as extensive as this would require 24 months. I would suggest, therefore, that section 1(b) be appropriately modified to extend the date for the submission of a final report.

The resources needed to conduct the insurance study will consist of a central core of government staff experts and non-government specialists. Other persons with experience and specialized competence will be employed from time to time. We expect, in particular, to work closely with the able staff of the Federal Trade Commission. Their competence in the field of economic and market analysis is widely respected. We have already been in contact with Chairman Dixon and members of his staff. In addition, I would expect the appointment of several full-time non-government experts. They would be associated directly with the Office of the Secretary of Transportation and would work closely with my own staff as well as with the other departments and agencies which would form the Interagency Advisory Committee established by section 4 of the Joint Resolution.

Although the Resolution does not explicitly require it, section 2(4) authorizes the appointment of advisory groups. Section 9(o) of the Department of Transportation Act contains similar authority. Pursuant to these sections, I plan to appoint an advisory group or groups composed of representatives from the insurance industry, other business groups, labor, appropriate professional organizations, State insurance commissions, and from consumer and other public organizations. Their views and advice will be extremely valuable and I would fully expect to make regular use of these consultative groups throughout the study.

Estimates of cost are extremely difficult to make at this early date. Based on our experience with other large research projects and our review of the work of a number of national commissions appointed in recent years, we feel that our expenses could approximate and perhaps exceed \$2 million. Most of these costs would be incurred for the full-time staff and the compensation required to support field surveys throughout the country. However, consultants will also be required, contracts may have to be let to deal with certain particular problems, some data processing will be required, and government employees detailed to the Department will have to be reimbursed. All of this adds, in our judgment, to an amount that could be at least equal to the authorization contained in section 7 of the Resolution. Given this, I would suggest that the precise dollar amount identified in section 7 be eliminated and that an open-ended authorization be substituted.

Let me conclude by stressing once more the urgency and vital importance of a comprehensive study of our entire motor vehicle accident compensation system. As President Johnson said earlier this year, "We must move now to streamline the automobile insurance system to make it fair, to make it simple, and to make it efficient." The Department of Transportation stands ready to carry forward the study called for by the President and authorized by Senate Joint Resolution 129. It is my firm conviction that this study is a prerequisite to sound reform and the development by the Congress, the States, and the industry of a modern, fair, and efficient compensation system.

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