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March 19, 2015

Rep. Joe Hoppe, Chair
Rep. Tim O'Driscoll, Vice Chair
Rep. Joe Atkins, DFL Lead
Commerce and Regulatory Reform Committee
Minnesota House of Representatives
100 Rev. Dr. Martin Luther King Jr. Blvd.
Saint Paul, MN 55155

RE: H.F. 1783 – Auto insurance requirements for transportation network companies

Dear Members of the Committee,

My name is R.J. Lehmann and I am co-founder, editor-in-chief and senior fellow of the R Street Institute. R Street is a D.C.-headquartered free-market think tank devoted to developing pragmatic solutions to public-policy challenges. Since our founding, we have been recognized as perhaps the leading independent source of policy research concerning property/casualty insurance. More recently, we also have distinguished ourselves with some of the first in-depth reports looking at challenges facing the burgeoning market for transportation network companies.

I write you regarding H.F. 1783, legislation dealing with the financial responsibilities and auto insurance requirements of TNCs like Uber, Lyft and Sidecar. We have grave concerns that this bill would have significant negative consequences both for the development of TNC services and for the insurance market that is developing to serve this emerging sector.

Minnesota traditionally performs well in our surveys of efficient, effective regulation at the state and local level. The state earned an "A" or "B" grade in each of the three years that we have published our Insurance Regulation Report Card. More directly relevant, the City of Minneapolis ranked second only to Washington, D.C. in our inaugural survey of vehicle-for-hire regulations in the 50 largest U.S. cities, published in November 2014. Passage of H.F. 1783 likely would have negative consequences for both of those scores in next year's reports.

Among the most significant concerns with this piece of legislation are:

1. The bill would require TNCs to provide primary commercial insurance during the so-called "Period 1," when a driver is logged in to the TNC application but has not matched with a potential rider. In addition to the reasonable debate that exists over whether this period should truly be considered "commercial" in nature, the requirement creates an obvious opportunity for

fraud, by providing incentive for a driver to remain logged in even when he or she has no intention to accept a fare. Moreover, this requirement would preempt existing rules already in place in Minneapolis and St. Paul, Minnesota's largest ride-sharing markets. Finally, and most crucially from a free-market perspective, it would effectively crowd out the new, innovative personal auto insurance products designed and priced to cover drivers who provide TNC services that already have been brought to market in several states by such major insurers as GEICO, Progressive, Farmers and USAA.

2. The bill requires comprehensive and collision coverage during all three phases of the ride-sharing process. Comp and collision ordinarily are optional coverages that are not required of either personal or commercial drivers in any state. That includes taxis and limousines, which are not required to carry comp and collision in Minnesota or anywhere else. There is no possible public policy rationale for this requirement.
3. The requirement that TNCs provide $1.5 million of uninsured and underinsured motorist coverage during all three periods is excessive and significantly exceeds the requirements set in leading jurisdictions like California, Colorado, the District of Columbia and nearby Illinois. This requirement is particularly problematic in Period 1, when one considers that Minnesota's state minimums for UM and UIM are ordinarily $25,000 and $50,000, respectively.
4. The bill makes no provision for coverage sold by surplus lines carriers to be eligible as qualifying insurance. The surplus lines market exists to provide coverage for unusual or difficult-to-insure risks. As a new market that has not yet produced troves of data, transportation network companies offer a textbook example of the kind of risk that surplus lines is intended to cover. Indeed, all of the current major TNCs have commercial liability coverage procured in the surplus lines market. It is imperative that the bill be amended to clarify that surplus lines carriers are eligible to provide qualifying coverage.

We commend the committee for exploring ways to provide a baseline framework that will allow TNCs to operate safely and effectively. However, as currently drafted, H.F. 1783 could crush the market by imposing draconian requirements far beyond those currently required of taxis and limousines. This would not serve the interests of either consumers or the market at large.

Sincerely,

R.J. Lehmann
R Street Institute

Attachments: *2014 Insurance Regulation Report Card*, *RideScore 2014*

cc. *Rep. Sarah Anderson, Rep. Jon Applebaum, Rep. Greg Davids, Rep. Raymond Dehn, Rep. Laurie Halverson, Rep. Sheldon Johnson, Rep. Ron Kresha, Rep. Leon Lillie, Rep. Jenifer Loon, Rep. Bob Loonan, Rep. Tim Sanders, Rep. Peggy Scott, Rep. Linda Slocum, Rep. Dennis Smith, Rep. Mike Sundin, Rep. Chris Swedzinski, Rep. Tama Theis*