

SFA

BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

House Bill 4159 (as reported without amendment)
Sponsor: Representative Mary C. Brown
House Committee: Insurance
Senate Committee: Commerce and Technology

JUN 26 1990

Date Completed: 5-3-90

RATIONALE

Automobile insurers are required by the Insurance Code to establish secondary (or merit) rating plans that provide for premium surcharges "for any or all coverages" for automobile insurance based on at-fault accidents and violations of the Michigan Vehicle Code. Recently, a customer challenged an insurance company's surcharging of comprehensive coverage on the ground that, unlike personal injury, liability, and collision coverages, comprehensive coverage on an automobile, which generally covers fire, theft, and vandalism, had no connection to a person's driving record. The challenge was unsuccessful, however, because the law does not prohibit the surcharging of comprehensive coverage. Indeed, it was reported that at least as recently as 1987-88, four of the top 12 auto insurers surcharged comprehensive coverage. Some people believe that, as a matter of principle, the Insurance Code should not permit surcharges based on driving record to be placed on the comprehensive portion of auto insurance policies.

CONTENT

The bill would amend the Insurance Code to exclude comprehensive coverage from the secondary or merit rating plans of automobile insurers.

MCL 500.2111

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

ARGUMENTS**Supporting Argument**

Merit rating surcharges based on driving experience should be applied only to automobile insurance coverages such as collision and personal injury that are related to driving experience. Since there is no correlation between a person's driving record and his or her comprehensive loss experience (theft, fire, vandalism, etc.), the person should not be charged more for the comprehensive coverage solely because he or she has committed a moving vehicle violation.

Opposing Argument

In the past, some insurers have said that they would prefer to be allowed to change internally their policies on surcharges for comprehensive coverage as a result of customer complaints rather than have them changed by statute. A spokesperson for AAA Michigan, the company whose use of the comprehensive surcharge was challenged, said last year that the surcharge was legal and was not imposed to increase unfairly the price a driver pays for insurance. Surcharges on other portions of the policy would have to be increased if drivers with poor driving records were to pay their fair share for auto insurance.

Legislative Analyst: L. Burghardt
Fiscal Analyst: J. Schultz

H8990/S4159A

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

H.B. 4159 (5-3-90)

ry