



**House  
Legislative  
Analysis  
Section**

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**PIP DISCOUNT PLANS**

**House Bill 4466 as enrolled  
Public Act 514 of 1996  
Second Analysis (1-3-97)**

**Sponsor: Rep. Gerald Law  
House Committee: Insurance  
Senate Committee: Financial Services**

***THE APPARENT PROBLEM:***

Chapter 21 of the Insurance Code, sometimes called the Essential Insurance Act, sets out the factors insurance companies can use to establish rates for automobile and home insurance. Auto insurance rates, for example, can be based on the age of the driver or length of driving experience, average miles driven, type of use, vehicle characteristics, as well as the number of at-fault accidents and driving violations. Home insurance rates can be based on, among other things, the nature of construction materials, security and safety devices, fire protection class, distance from a fire hydrant, the use of smoking materials, and the loss experience of the insured. In both cases, insurers can base rates on "territory" or location of the risk. The code at present permits companies to use factors in addition to those specified but only after a hearing and predicated upon certain findings by the insurance commissioner. Some people believe that insurance companies should be able to use other factors of their own selection to provide discounts to customers without prior approval provided the factors are related to a reduction in costs and do not contravene the purposes of the Insurance Code.

***THE CONTENT OF THE BILL:***

The bill would amend the Insurance Code to allow an insurance company to establish and maintain a premium discount plan using factors in addition to those permitted in Section 2111 (which deals with auto and home insurance) if the plan was uniformly applied to all its insureds; was consistent with the purposes of the code; and reflected reasonably anticipated reductions in losses or expenses. The bill would not affect benefits or obligations required under Chapter 31 (no-fault auto insurance). Further, the bill specifies that nothing in the bill would authorize an insurer to offer or prohibit an insurer from offering premium discount plans concerning any of the following: health care services, health care providers, or health care facilities; automobile repair providers; or materials used in the repair of an automobile.

MCL 500.2110a

***FISCAL IMPLICATIONS:***

The Senate Fiscal Agency reports that the bill would not affect the regulatory workload of the Department of Consumer and Industry Services or have a fiscal impact on the state or on local government. (SFA analysis dated 10-19-95)

***ARGUMENTS:***

***For:***

The bill would encourage insurance companies to use more creative marketing practices by allowing them to use premium discount plans as they saw fit and without prior approval by regulators – provided the plans did not contravene the purposes of the Insurance Code and were justifiable based on anticipated reductions in losses or expenses. This could foster greater competition in the insurance marketplace and offer consumers more choices and lower rates.

House Bill 4466 (1-3-97)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.