Legislative Analysis

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TERRITORIAL RATING FOR AUTO INSURANCE

House Bill 5250
Sponsor: Rep. Bettie Cook Scott
Committee: Insurance

Complete to 10-31-07

A SUMMARY OF HOUSE BILL 5250 AS INTRODUCED 9-19-07

The bill would amend the Insurance Code to limit how territorial rating can be used in establishing rates for no-fault automobile insurance.

Currently, auto insurers can group auto insurance risks by territory, without restrictions. House Bill 5250 would require insurers to group risks by territory and require that territorial base rates be established as follows:

- There would be no limit on the number of territories used in a rating plan but an insurer could not use more than 20 different territorial base rates for an auto insurance coverage. A territorial base rate could be made applicable in one or more territories in an insurer's rating plan.

- No territorial base rate could be less than 45 percent of the highest territorial base rate for the same policy ("all other rating classifications being the same").

- No territorial base rate could be less than 90 percent of the territorial base rate in any adjacent territory for the same policy.

Exemption from territorial restrictions. An insurance company could elect to exempt itself from the restrictions described above by filing for an exemption with the insurance commissioner (technically, the commissioner of the Office of Financial and Insurance Services, or OFIS). A company electing this exemption would be required to file a rating plan initially in which no territorial base rate for an automobile package policy is less than 45 percent of the highest territorial rate for the same policy. Five years from the date of the initial filing, the insurer would be prohibited from using a rating plan in which any territorial base rate would be less than 67 percent of the highest territorial base rate for the same policy. An insurer's election of an exemption would be permanent, final, and not subject to change.

Financial hardship exemption. Beginning one year after the effective date of the bill, an insurer would have the opportunity to demonstrate to the OFIS commissioner at an evidentiary hearing that clear and significant financial impairment exists in a geographic territory or territories because of the need for an additional territorial base rate (over the 20 permitted) or the need for a greater variance in the adjacent geographic territory differential (in excess of 10 percent). If the need is demonstrated, the additional base rate or greater variance, or both, would be granted to the insurer (or a licensed rating agency on behalf of the insurer). Evidence could not include financial impairment resulting from exemptions granted to other insurance companies.

If the commissioner finds, solely on the evidence presented, that a greater variance in the adjacent territory differential is justified, the increase in variance could not exceed 100 percent of the standard differential. If a greater variance is justified, then a new territorial base rate would have to be created instead. A financial impairment exemption would be applicable only to the geographic territory or territories in question at the hearing and only to the insurer requesting the exemption.

An insurance company could not have more than five exemptions in force at any one time. Each additional base rate or each increase in variance in adjacent geographic territory differential would count as a separate exemption, for the purpose of counting the number of exemptions.

The bill would amend Chapter 21 of the Insurance Code, a portion of the code known as the Essential Insurance Act.

[Note: The Insurance Code contained provisions similar to those in House Bill 5250 from 1981 to 1986 and then again from 1992 to 1996. Those restrictions on the use of territories in rating were replaced by the current language on territories by Public Act 90 of 1996.]

MCL 500.2111

FISCAL IMPACT:

The bill provides for a change in the current rating factors which will require every licensed Michigan insurer to re-file its rating structure. Therefore, additional OFIS staff will be needed, resulting in increased DLEG expenditures which have yet to be determined. The ongoing monitoring of exemptions may also require additional staff. The bill does not provide for additional revenue to defray the added cost.

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