

OVERSIGHT OF AUTO INSURANCE RATES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4993

Sponsor: Rep. Virgil Smith

Committee: Insurance

Complete to 3-18-08

A SUMMARY OF HOUSE BILL 4993 AS INTRODUCED 6-28-07

The bill would amend the No-Fault Act within the Insurance Code to revise the process by which automobile insurance rates are reviewed. Currently, the code allows an insurance company to use rates for auto insurance as soon as those rates are filed with the Office of Financial and Insurance Services (OFIS), although they could be subsequently challenged. Under the bill, any rate increase would take effect 90 days after certain specified required information was filed with OFIS. However, those rates would not take effect if (1) the commissioner of OFIS challenged the proposed rate increase, and/or (2) a challenge was filed by an interested person with the commissioner of OFIS, using rate challenge procedures established by the commissioner. (As introduced, the new requirements would have taken effect January 1, 2008.)

If the commissioner or an interested person filed a challenge to a proposed rate increase, the commissioner would have to convene a public contested case hearing under the Administrative Procedures Act. After the hearing, the commissioner would approve the rate increase if he or she found it to be fair and equitable "in light of the compulsory insurance system established [by law] and the constitutional due process protections that are inherent in and applicable to the compulsory insurance system established [by law]."

The bill would create a new Section 2109a under which auto insurers would be required to file certain specified information to the commissioner of OFIS annually and again when it seeks an increase in base rates for personal injury protection (PIP) coverage, property protection insurance (PPI) coverage, or residual liability insurance coverage. (These are the mandatory coverages.)

The required information would include:

- The total number of claims submitted to the insurer over the previous year, by type of coverage.
- The total amount paid by the insurer for each category of claims (along with any reimbursements by the Michigan Catastrophic Claims Association).
- The total number of claims and the total amount paid on claims submitted during the one-year period prior to the most recent one-year period, by type of coverage.

- The total number of new lawsuits filed within the previous year, by type of coverage.
- The total amount paid by the insurer to settle or otherwise resolve those lawsuits, as well as the cost of defending the lawsuits. MCCA reimbursements would also need to be reported.
- The total amount paid by the insurer in the past year to settle or resolve lawsuits filed prior to that year, by category of coverage, along with the total number of claims.
- The total premiums collected during the previous year, by category of coverage.
- The insurer's total net profit for its most recent fiscal year.

As noted earlier, this information would also have to be submitted with a proposed increase in base rates, along with a notice to the public of the proposed increase following procedures established by the commissioner of OFIS. The company would also have to submit a report entitled "Rate Increase Analysis" setting forth, in plain language, all reasons for the rate increase, reliable actuarial support for the rate increase, and other documentation justifying the increase.

FISCAL IMPACT:

A fiscal analysis is in process.

Legislative Analyst: Chris Couch
Fiscal Analyst: Mark Wolf

■ 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.