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## REDUCE AUTO INSURANCE RATES BASED ON SEAT BELT AMENDMENTS

### House Bill 4757 with committee amendments First Analysis (5-20-97)

**Sponsor: Rep. Burton Leland**  
**Committee: Insurance**

#### ***THE APPARENT PROBLEM:***

House Bill 4280, which is currently before the Michigan House of Representatives, would amend the Michigan Vehicle Code to allow a seat belt violation to be enforced as a primary enforcement action rather than, as now, as a secondary enforcement action. That is, a police officer could stop a driver for not wearing a seat belt rather than have to enforce the seat belt law only when a vehicle was pulled over for another violation. The bill also would require all passengers in a vehicle to wear a seat belt, not only the driver and front seat passengers. The coalition promoting this legislation, which includes insurance companies, argues, among other things, that the primary enforcement of the seat belt law will increase compliance, which in turn will save lives and reduce injuries. Some proponents say increased compliance will save considerable sums of money in reduced medical costs and, consequently, in reduced insurance costs. Legislation has been introduced that would require auto insurers to pass along their savings from House Bill 4280 to their policyholders.

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

The bill would amend the Insurance Code to require, by January 1, 2000, that insurance companies file base rates for automobile insurance that reflect the actual average premium savings for personal protection insurance (which applies to personal injuries and is known as PIP coverage) and residual liability insurance (which covers the policyholder in the event of a lawsuit) resulting from the 1997 amendments to Sections 710d and 710e of the Michigan Vehicle Code. House Bill 4757 is tie-barred to House Bill 4280, which, as reported from the House Transportation Committee, would amend those sections of the vehicle code to allow a seat belt violation to be enforced as a primary action rather than, as now, as a secondary action (that is, only when a driver has been detained for a suspected violation of some other traffic law). House Bill 4280 would also require all passengers in a vehicle to wear a seat belt, not only the driver and front seat passengers.

MCL 500.2111a

#### ***FISCAL IMPLICATIONS:***

According to the House Fiscal Agency, the bill would increase the administrative costs of the Department of Consumer and Industry Services by a very small indeterminate amount. (5-19-97)

#### ***ARGUMENTS:***

##### ***For:***

Proponents of more stringent enforcement of the state's seat belt law cite figures indicating that large savings could result due to the reduction in traffic fatalities and injuries, including considerable savings in insurance costs. If this is the case, then it is imperative that insurance companies pass their savings on to their customers. This bill would say that auto insurers would have to file rates by the year 2000 reflecting their actual savings from increased seat belt enforcement. The sponsor of the legislation has said (based on information from the coalition supporting primary enforcement of the seat belt law) there could be \$60 million to \$70 million in insurance savings. Auto insurance consumers should get this money back. The aim of this bill is to see that they do. It doesn't make sense for the insurance industry to trumpet the savings when endorsing stricter seat belt enforcement but downplay the savings when faced with legislation requiring rate adjustments.

##### ***Against:***

The bill is unnecessary and wrongheaded. It is at the very least premature. No legislation has yet been enacted regarding the primary enforcement of seat belt violations. As of this writing, House Bill 4280 has been weakened by floor amendments in the House and has yet to gain majority support even in that weakened state. Any discussion of passing savings on to consumers should be deferred until meaningful legislation is passed. But even if primary enforcement legislation becomes law, this bill would be the wrong approach, for a number of reasons. First, insurance rates are designed to reflect costs; in a competitive market, if costs go down, rates will reflect that. So, it is unnecessary. Second, it will not be easy to establish specifically what the savings are from any seat

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belt legislation, in large part because insurance companies will not know what would have happened without the legislation. Many other factors contribute to increases and decreases in medical care costs attributable to traffic accidents. Third, many companies already provide a discount to drivers who use seat belts. In fact, a spokesman for one company has testified that over 90 percent of customers get the discount, even though traffic experts say compliance with the seat belt law in the state is around 70 percent. (In fact, the legislature required a 20 percent discount for seat belt use from 1986 to 1992, and reportedly many companies continue to apply it.)

■ 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.

### ***POSITIONS:***

The Insurance Bureau is opposed to the bill. (5-14-97)

State Farm, AAA Michigan, and the National Association of Independent Insurers indicated their opposition to the bill to the House Insurance Committee. (5-14-97)

Analyst: C. Couch

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