



**House
Legislative
Analysis
Section**

Manufacturer's Bank Building, 12th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

INSURANCE RATE ROLLBACK

House Bill 5313 (Substitute H-3)
First Analysis (12-6-89)

RECEIVED

MAR 05 1990

Sponsor: Rep. John M. Maynard
Committee: Insurance

Mich. State Law Library

H.B. 5313 (12-6-89)

THE APPARENT PROBLEM:

Automobile insurance coverage is mandatory under Michigan's no-fault auto insurance system. (Under a no-fault system, drivers collect from their own insurance policies and do not sue other drivers, except in certain special cases.) Because it is mandatory, as the courts have said, insurance must be available at affordable prices. While it is widely recognized that Michigan has one of the best insurance systems in the country, many people believe auto insurance is not now affordable, that insurance rates are unreasonably high and beyond the means of many drivers, particularly in large urban areas. A recent report by the Michigan Citizens Lobby claims that "insurers can reduce their rates significantly while still making a reasonable profit," and the organization has urged a reduction in rates without any reduction in policyholder rights or benefits. The Citizens Lobby, which also supports reform of the ratemaking process and the elimination of insurance industry antitrust protections, says the rising insurance rates of the past five years can be attributed in large part to excessive profits, excessive operating expenses, and the overestimation of future losses. The organization, and others, advocate a rollback in insurance rates that, combined with other changes in insurance regulation, will lead to increased competition in the automobile insurance market and lower prices for consumers.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code, to require automobile insurance companies, by April 1, 1990, to reduce their base rates to a level 30 percent below those in effect on November 1, 1989. (Companies who were not writing insurance in the state as of November 1, 1989, would have to file base rates that did not exceed the weighted average of the base rates of the ten largest insurers by market share.) Assessments for the Michigan Catastrophic Claims Association, the Automobile Theft Prevention Authority, and the Michigan Automobile Insurance Placement Facility could not be considered in achieving the required rate reduction. The insurance commissioner would be required to reduce the amount of the reduction for each insurance company that he or she found would risk insolvency because of the reduction.

MCL 500.2151

FISCAL IMPLICATIONS:

The Insurance Bureau reports that the bill will require additional staff time to review new filings and to review the effect of the rate reductions on the solvency of insurers. No details are available. (12-5-89)

ARGUMENTS:

For:

Insurance companies could lower their rates for auto coverages significantly and still make a reasonable after-tax profit, according to a study conducted by the Michigan

Citizens Lobby of the five largest auto insurers (which have two-thirds of the market in the state). An immediate rate rollback, in combination with reform of the regulatory process and the elimination of antitrust protections, will produce a more competitive auto insurance market throughout the state, and that will result in lower prices for consumers. Rates can be reduced without taking away any policyholder rights or benefits, simply by making companies eliminate excessive profits, excessive administrative expenses, and excessive estimates of future losses. The Citizens Lobby study, which the organization says used conservative estimates of industry profits based on publicly available information, recommends rollbacks of up to 29 percent for mandatory no-fault coverages without any reduction in underlying costs, and the organization believes even greater reductions can be attained. (The amount of the recommended rollback varies company by company in the study from 4 percent to 29 percent.) Reducing rates is important because of the dramatic increase in rates over the past five years. The Citizens Lobby study says, "for the lowest risk drivers in most Michigan cities, premiums for the mandatory no-fault coverage have more than doubled," and other drivers have been harder hit. Since drivers must buy auto insurance in Michigan, it is necessary to make sure that it is available at affordable rates.

Against:

Representatives of the insurance industry agree that insurance rates are high in the state but argue that it is a cruel hoax to pretend that rates can be reduced without reducing the underlying costs of insurance. A legislatively mandated cut in rates is a simplistic solution that in time will produce confusion, frustration, and anger among consumers just as the voter-approved rollback in California has. If insurers are to be allowed a fair rate of return (as courts have required in California), significant rollbacks of rates are simply not possible. Higher insurance rates are a reflection of the increasing cost of medical care, legal expenses, car repairs, and cars themselves — the cost of the goods and services insurance pays for. Reducing the payouts of insurance companies is the only way to achieve real, long-lasting price reductions. This can be accomplished through cost containment measures, by reducing litigation, by allowing insurance consumers to choose lower levels of benefits, and by other means that require thoughtful consideration. Michigan's insurance system is widely regarded as the model for the nation, one that provides generous, prompt compensation with little waste, and this bill threatens to destroy it. Insurance companies maintain that the Citizens Lobby study is flawed and its conclusions invalid (and cite a critical Insurance Bureau study), and that in fact many insurers are earning profits below the range considered acceptable by the study. It should be noted that the insurance commissioner

has the authority to challenge and reduce rates that are excessive. However, the insurance bureau has said it is aware of no data that would indicate a rollback of the magnitude contemplated in this bill is appropriate or necessary.

Against:

Even if rates can be reduced, an across-the-board rate rollback is inequitable in several respects. It penalizes efficient companies more than inefficient companies. It also does nothing about inequities in pricing that result, some people believe, in urban drivers paying higher rates than they ought while others pay less than they should. A larger proportion of rate reductions should go to those drivers who are treated badly by current insurance company rating practices.

Response: In the future, after the rollback has taken effect, companies will apply for rate increases. If legislation authorizing prior approval of rates is enacted, as proponents of the rate rollback advocate, the Insurance Bureau will be able to determine the efficiency and profitability of insurance companies one by one and act accordingly. Advocates of the rate reduction also support another legislative package that would address the issue of fairness and equity in insurance pricing.

POSITIONS:

The Michigan Citizens Lobby supports the bill. (12-5-89)

The Michigan Trial Lawyers Association supports a rate rollback without a reduction in the rights of the insured. (12-5-89)

The Michigan Insurance Federation is opposed to the bill. (12-5-89)

AAA Michigan testified in opposition to the bill before the House Insurance Committee. (12-5-89)

A representative from the Professional Insurance Agents of Michigan (PIA) testified in opposition to a rate reduction without a reduction in associated costs to insurers. (12-5-89)

The National Association of Independent Insurers opposes the bill. (12-5-89)

The Insurance Bureau does not support the bill. (12-5-89)