

Bulletin No. 94-06

Auto insurance rating factors

Issued and entered July 20, 1994 by David J. Dykhouse, Commissioner of Insurance

On June 21, 1994, Commissioner of Insurance David J. Dykhouse issued an order which allows insurers to use two additional rating factors for auto insurance. The factors are: "years accident free" and "years insured by the insurer."

Section 2111(15) of the Code provides a process whereby additional rating factors can be used if approved by the Commissioner. This section states:

(15) An insurer shall not utilize factors other than those prescribed in this section in establishing classifications for automobile insurance and home insurance until January 1, 1982. However, on and after January 1, 1982, an insurer may utilize factors in addition to those specified in this section if the commissioner finds, after a hearing held pursuant to the administrative procedures act of 1969, Act No. 306 of the Public Acts as amended being section 24.201 to 24.328 of the Michigan Compiled Laws that the factors would encourage innovation, would encourage insureds to minimize the risks of loss from hazards insured against, and would be consistent with the purposes of this chapter.

On September 16, 1992, State Farm Mutual Insurance Company (State Farm) submitted a filing for approval by the Commissioner in which it sought to implement changes to its merit rating plan by means of a "forgiveness plan." The forgiveness plan proposed to offer a discount to policyholders based on two factors: "years accident free" and "years insured with the insurer." The additional rating factors submitted in that filing were not among those permissible in Michigan under Section 2111(2). On March 5, 1993, the Commissioner issued a notice of hearing setting the matter for hearing before an administrative law judge.

In a hearing on August 2, 1993, State Farm introduced its proposed "forgiveness plan." Under the plan, policyholders who have good driving records would have merit rating plan surcharges for a conviction or at-fault accident waived or reduced depending upon the length of time insured with State Farm. The forgiveness plan would also allow policyholders to leave the insurer and return within three years with the same forgiveness provisions.

State Farm successfully presented data to show that a "forgiveness plan" which uses "time insured by the insurer" and "years accident free" to reduce a policyholder's premium would be an innovation in Michigan, as contemplated in section 2111(15), which would encourage insureds to minimize the risks of loss from hazards insured against. The plan would encourage safe driving by rewarding policyholders who have been insured with the company over a long period and remained accident-free. State Farm also provided policyholder data which demonstrated that the loss experience of Michigan policyholders improves as the length of time the policyholder remains with the company increases.

The purpose of the Essential Insurance Act is to assure that automobile coverage for Michigan insureds is provided in a manner that encourages competition in the marketplace, and that rates and rating systems are offered and available in a manner that is not unfairly discriminatory. Also, the proposed new rating factors, which were actuarially justified, introduce an additional element of affordability into the insurance rates charged to long term policyholders. Therefore, it has been determined that the new rating factors would be consistent with the purposes of Chapter 21 of the Code.

Any questions regarding this bulletin should be directed to:

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