

Legislative Analysis



PROHIBIT INSURANCE SCORING

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

House Bill 4412

Sponsor: Rep. Tim Melton

Committee: Insurance

Complete to 3-28-07

A SUMMARY OF HOUSE BILL 4412 AS INTRODUCED 3-6-07

The bill would, generally, prohibit an insurance company from using an insurance score (credit score) as a rating factor or as a basis for refusing to insure or for limiting coverage. This would apply to new and renewal *personal insurance* policies effective as of July 1, 2007.

The bill also would require the adjustment of base rates using a formula provided in the bill that takes account of the elimination of insurance score discounts. Insurance companies would need to certify to the insurance commissioner by May 1, 2007, that they had made the adjustments.

The term "personal insurance" refers to policies underwritten on an individual or group basis for personal, family, or household use, including private passenger automobile, homeowner's, motorcycle, boat, personal watercraft, snowmobile, recreational vehicle, mobile home, and all other non-commercial vehicular and non-commercial dwelling fire insurance policies.

The term "insurance score" is defined as " a number, rating, classification, or comparative grouping of risks that is based in whole or in part on credit information, a credit score, or on items of information included in a credit report maintained by a consumer reporting agency that an insurer uses for the purposes of predicting the future loss exposure of an individual applicant or insured, for classifying risk, or for setting the premium charged an individual applicant or insured."

The bill provides a rate adjustment formula for insurance companies to use in adjusting base rates. It is essentially as follows:

- (1) Calculate the sum of earned premium at current rate level for the period January 1, 2006 through December 31, 2006.
- (2) Calculate the sum of earned premium at current rate level with all insurance score discounts eliminated for the same period.
- (3) Reduce base rates by the factor created from the difference of the number 1 and the ratio of the amount of (1) to the amount of (2).

If a company failed to file the base rate adjustment, then in any proceeding to determine the validity of a rate filing, the company would be subject to the presumption that a rate filing does not conform to rate standards under the code.

FISCAL IMPACT:

The bill could potentially increase expenditures for the Office of Financial and Insurance Services by an indeterminate amount, assuming that additional staff would be required for monitoring and investigating compliance.

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

■ 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.