

# SENATE BILL No. 994

January 24, 2006, Introduced by Senators CHERRY, SCOTT, JACOBS, BRATER, PRUSI, BASHAM, SCHAUER, THOMAS, CLARK-COLEMAN, CLARKE, OLSHOVE, EMERSON and LELAND and referred to the Committee on Banking and Financial Institutions.

A bill to amend 1956 PA 218, entitled "The insurance code of 1956," by amending sections 2109, 2115, 2403, and 2603 (MCL 500.2109, 500.2115, 500.2403, and 500.2603), section 2115 as amended by 1980 PA 461 and section 2403 as amended by 1993 PA 200.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 2109. ~~—(1)—~~ All rates for automobile insurance and home  
2 insurance shall be made in accordance with the following  
3 provisions:

4           (a) Rates shall not be excessive, inadequate, or unfairly  
5 discriminatory. A rate shall not be held to be excessive unless the  
6 rate is unreasonably high for the insurance coverage provided. ~~—and~~  
7 ~~a reasonable degree of competition does not exist for the insurance~~

1 ~~to which the rate is applicable.~~

2 (b) A rate shall not be held to be inadequate unless the rate  
3 is unreasonably low for the insurance coverage provided and the  
4 continued use of the rate endangers the solvency of the insurer; or  
5 unless the rate is unreasonably low for the insurance provided and  
6 the use of the rate has or will have the effect of destroying  
7 competition among insurers, creating a monopoly, or causing a kind  
8 of insurance to be unavailable to a significant number of  
9 applicants who are in good faith entitled to procure that insurance  
10 through ordinary methods.

11 (c) A rate for a coverage is unfairly discriminatory in  
12 relation to another rate for the same coverage if the differential  
13 between the rates is not reasonably justified by differences in  
14 losses, expenses, or both, or by differences in the uncertainty of  
15 loss, for the individuals or risks to which the rates apply. A  
16 reasonable justification shall be supported by a reasonable  
17 classification system; by sound actuarial principles when  
18 applicable; and by actual and credible loss and expense statistics  
19 or, in the case of new coverages and classifications, by reasonably  
20 anticipated loss and expense experience. A rate is not unfairly  
21 discriminatory because it reflects differences in expenses for  
22 individuals or risks with similar anticipated losses, or because it  
23 reflects differences in losses for individuals or risks with  
24 similar expenses.

25 ~~—— (2) A determination concerning the existence of a reasonable~~  
26 ~~degree of competition with respect to subsection (1)(a) shall take~~  
27 ~~into account a reasonable spectrum of relevant economic tests,~~

1 including the number of insurers actively engaged in writing the  
2 insurance in question, the present availability of such insurance  
3 compared to its availability in comparable past periods, the  
4 underwriting return of that insurance over a period of time  
5 sufficient to assure reliability in relation to the risk associated  
6 with that insurance, and the difficulty encountered by new insurers  
7 in entering the market in order to compete for the writing of that  
8 insurance.

9       Sec. 2115. (1) ~~If as~~ **AS** part of a decision in a proceeding  
10 under section 2114, or in a separate proceeding on the  
11 commissioner's own motion, held pursuant to ~~Act No. 306 of the~~  
12 ~~Public Acts of 1969, as amended, the commissioner finds that a~~  
13 ~~reasonable degree of competition does not exist on a statewide~~  
14 ~~basis with respect to automobile insurance or home insurance,~~ **THE**  
15 **ADMINISTRATIVE PROCEDURES ACT OF 1969, 1969 PA 306, MCL 24.201 TO**  
16 **24.328,** the commissioner ~~shall by~~ **MAY** order ~~require each~~ **AN**  
17 **AUTOMOBILE OR HOME** insurer ~~which transacts that type of insurance~~  
18 ~~in this state~~ to comply with the provisions of chapter 24 or 26,  
19 as the case may be. ~~, with respect to that insurance which was the~~  
20 ~~subject of the commissioner's finding.~~ The order shall take effect  
21 not less than 90 nor more than 150 days after the order is issued.  
22 On or after the effective date of an order issued under this  
23 subsection, none of the provisions of this chapter ~~shall be~~ **IS**  
24 applicable to the insurance ~~which~~ **THAT** was the subject of the  
25 order.

26       (2) After an order issued pursuant to subsection (1) has been  
27 in effect for 1 year, ~~if the commissioner has reason to believe~~

1 ~~that there would be a reasonable degree of price competition for~~  
2 ~~the type of insurance affected by the order,~~ **THE COMMISSIONER, ON**  
3 **HIS OR HER OWN MOTION,** or ~~if,~~ upon the petition of an insurer or  
4 a resident of this state, ~~there is a showing that there is reason~~  
5 ~~to believe that there would be a reasonable degree of price~~  
6 ~~competition for that type of insurance, the commissioner shall~~ **MAY**  
7 hold a hearing pursuant to ~~Act No. 306 of the Public Acts of 1969,~~  
8 ~~as amended,~~ **THE ADMINISTRATIVE PROCEDURES ACT OF 1969, 1969 PA**  
9 **306, MCL 24.201 TO 24.328,** to determine ~~if a reasonable degree of~~  
10 ~~price competition would exist if~~ **WHETHER** the order ~~were no longer~~  
11 **ISSUED UNDER SUBSECTION (1) SHOULD REMAIN** in effect. The hearing  
12 shall be held upon not less than 20 days' written notice to each  
13 insurer subject to the order **UNDER SUBSECTION (1)** and upon not less  
14 than 20 days' notice in not less than 3 newspapers of general  
15 circulation within this state.

16 (3) If the commissioner finds after the hearing that ~~a~~  
17 ~~reasonable degree of price competition would exist,~~ **AN ORDER**  
18 **ISSUED UNDER SUBSECTION (1) SHOULD NOT REMAIN IN EFFECT,** the  
19 commissioner shall by order state when, not less than 90 nor more  
20 than 150 days after issuance of a new order, the ~~preceding~~ order  
21 **UNDER SUBSECTION (1)** will no longer be effective. On and after the  
22 effective date of an order issued under this subsection, the  
23 provisions of this chapter shall be applicable to the type of  
24 insurance ~~which~~ **THAT** was the subject of the order **UNDER**  
25 **SUBSECTION (1)**.

26 Sec. 2403. (1) All rates shall be made in accordance with  
27 this section and all of the following:

1 (a) Due consideration shall be given to past and prospective  
2 loss experience within and outside this state; to catastrophe  
3 hazards; to a reasonable margin for underwriting profit and  
4 contingencies; to dividends, savings, or unabsorbed premium  
5 deposits allowed or returned by insurers to their policyholders,  
6 members, or subscribers; to past and prospective expenses, both  
7 countrywide and those specially applicable to this state; to  
8 underwriting practice, judgment, and to all other relevant factors  
9 within and outside this state. For worker's compensation insurance,  
10 in determining the reasonableness of the margin for underwriting  
11 profit and contingencies, consideration shall be given to all  
12 after-tax investment profit or loss from unearned premium and loss  
13 reserves attributable to worker's compensation insurance, as well  
14 as the factors used to determine the amount of reserves. For all  
15 other kinds of insurance to which this chapter applies, all factors  
16 to which due consideration is given under this subdivision shall be  
17 treated in a manner consistent with the laws of this state that  
18 existed on December 28, 1981.

19 (b) The systems of expense provisions included in the rates  
20 for use by any insurer or group of insurers may differ from those  
21 of other insurers or groups of insurers to reflect the requirements  
22 of the operating methods of the insurer or group with respect to  
23 any kind of insurance, or with respect to any subdivision or  
24 combination thereof for which subdivision or combination separate  
25 expense provisions are applicable.

26 (c) Risks may be grouped by classifications for the  
27 establishment of rates and minimum premiums. Classification rates

1 may be modified to produce rates for individual risks in accordance  
2 with rating plans that measure variations in hazards, expense  
3 provisions, or both. The rating plans may measure any differences  
4 among risks that may have a probable effect upon losses or expenses  
5 as provided for in subdivision (a).

6 (d) Rates shall not be excessive, inadequate, or unfairly  
7 discriminatory. A rate shall not be held to be excessive unless the  
8 rate is unreasonably high for the insurance coverage provided. ~~and~~  
9 ~~a reasonable degree of competition does not exist with respect to~~  
10 ~~the classification, kind, or type of risks to which the rate is~~  
11 ~~applicable.~~ Except as otherwise provided in this subdivision, a  
12 rate shall not be held to be inadequate unless the rate is  
13 unreasonably low for the insurance coverage provided and the  
14 continued use of the rate endangers the solvency of the insurer; or  
15 unless the rate is unreasonably low for the insurance coverage  
16 provided and the use of the rate has or will have the effect of  
17 destroying competition among insurers, creating a monopoly, or  
18 causing a kind of insurance to be unavailable to a significant  
19 number of applicants who are in good faith entitled to procure the  
20 insurance through ordinary methods. For commercial liability  
21 insurance a rate shall not be held to be inadequate unless the  
22 rate, after consideration of investment income and marketing  
23 programs and underwriting programs, is unreasonably low for the  
24 insurance coverage provided and is insufficient to sustain  
25 projected losses and expenses; or unless the rate is unreasonably  
26 low for the insurance coverage provided and the use of the rate has  
27 or will have the effect of destroying competition among insurers,

1 creating a monopoly, or causing a kind of insurance to be  
2 unavailable to a significant number of applicants who are in good  
3 faith entitled to procure the insurance through ordinary methods.  
4 As used in this subdivision, "commercial liability insurance" means  
5 insurance that provides indemnification for commercial, industrial,  
6 professional, or business liabilities. For worker's compensation  
7 insurance provided by an insurer that is controlled by a nonprofit  
8 health care corporation formed pursuant to the nonprofit health  
9 care corporation reform act, ~~Act No. 350 of the Public Acts of~~  
10 ~~1980, being sections 550.1101 to 550.1704 of the Michigan Compiled~~  
11 ~~Laws—~~ **1980 PA 350, MCL 550.1101 TO 550.1704**, a rate shall not be  
12 held to be inadequate unless the rate is unreasonably low for the  
13 insurance coverage provided. A rate for a coverage is unfairly  
14 discriminatory in relation to another rate for the same coverage,  
15 if the differential between the rates is not reasonably justified  
16 by differences in losses, expenses, or both, or by differences in  
17 the uncertainty of loss for the individuals or risks to which the  
18 rates apply. A reasonable justification shall be supported by a  
19 reasonable classification system; by sound actuarial principles  
20 when applicable; and by actual and credible loss and expense  
21 statistics or, in the case of new coverages and classifications, by  
22 reasonably anticipated loss and expense experience. A rate is not  
23 unfairly discriminatory because the rate reflects differences in  
24 expenses for individuals or risks with similar anticipated losses,  
25 or because the rate reflects differences in losses for individuals  
26 or risks with similar expenses. Rates are not unfairly  
27 discriminatory if they are averaged broadly among persons insured

1 on a group, franchise, blanket policy, or similar basis.

2 (2) Except to the extent necessary to meet the provisions of  
3 subsection (1)(d), uniformity among insurers in any matters within  
4 the scope of this section is neither required nor prohibited.

5 Sec. 2603. (1) All rates shall be made in accordance with the  
6 following provisions:

7 (a) Due consideration shall be given to past and prospective  
8 loss experience within and outside this state; to catastrophe  
9 hazards; to a reasonable margin for underwriting profit and  
10 contingencies; to dividends, savings, or unabsorbed premium  
11 deposits allowed or returned by insurers to their policyholders,  
12 members, or subscribers; to past and prospective expenses, both  
13 countrywide and those specially applicable to this state; and to  
14 all other relevant factors within and outside this state. In the  
15 case of fire insurance rates, consideration also shall be given to  
16 the experience of the fire insurance business during a period of  
17 not less than the most recent 5-year period for which that  
18 experience is available.

19 (b) The systems of expense provisions included in the rates  
20 for use by any insurer or group of insurers may differ from those  
21 of other insurers or groups of insurers to reflect the requirements  
22 of the operating methods of the insurer or group with respect to  
23 any kind of insurance or with respect to any subdivision or  
24 combination thereof for which subdivision or combination separate  
25 expense provisions are applicable.

26 (c) Risks may be grouped by classifications for the  
27 establishment of rates and minimum premiums. Classification rates

1 may be modified to produce rates for individual risks in accordance  
2 with rating plans ~~which~~ **THAT** measure variations in hazards,  
3 expense provisions, or both. The rating plans may measure any  
4 differences among risks that may have a probable effect upon losses  
5 or expenses as provided for in subdivision (a).

6 (d) Rates shall not be excessive, inadequate, or unfairly  
7 discriminatory. A rate shall not be held to be excessive unless the  
8 rate is unreasonably high for the insurance coverage provided. ~~and~~  
9 ~~a reasonable degree of competition does not exist with respect to~~  
10 ~~the classification, kind, or type of risks to which the rate is~~  
11 ~~applicable.~~ A rate shall not be held to be inadequate unless the  
12 rate is unreasonably low for the insurance coverage provided and  
13 the continued use of the rate endangers the solvency of the  
14 insurer; or unless the rate is unreasonably low for the insurance  
15 provided and the use of the rate has or will have the effect of  
16 destroying competition among insurers, creating a monopoly, or  
17 causing a kind of insurance to be unavailable to a significant  
18 number of applicants who are in good faith entitled to procure the  
19 insurance through ordinary methods. A rate for a coverage is  
20 unfairly discriminatory in relation to another rate for the same  
21 coverage, if the differential between the rates is not reasonably  
22 justified by differences in losses, expenses, or both, or by  
23 differences in the uncertainty of loss for the individuals or risks  
24 to which the rates apply. A reasonable justification shall be  
25 supported by a reasonable classification system; by sound actuarial  
26 principles when applicable; and by actual and credible loss and  
27 expense statistics or, in the case of new coverages and

1 classifications, by reasonably anticipated loss and expense  
2 experience. A rate is not unfairly discriminatory because the rate  
3 reflects differences in expenses for individuals or risks with  
4 similar anticipated losses, or because the rate reflects  
5 differences in losses for individuals or risks with similar  
6 expenses. Rates are not unfairly discriminatory if they are  
7 averaged broadly among persons insured on a group, franchise,  
8 blanket policy, or similar basis.

9 (2) Except to the extent necessary to meet the provisions of  
10 subsection (1)(d), uniformity among insurers in any matters within  
11 the scope of this section is neither required nor prohibited.