

Legislative Analysis



NO PREMIUM INCREASES DURING TERM OF POLICY

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House Bill 4674 with House committee amendment

Sponsor: Rep. Tory Rocca

Committee: Insurance

First Analysis (5-14-07)

BRIEF SUMMARY: The bill would amend the Insurance Code to prohibit insurance companies from increasing the premium for an automobile or home insurance policy during the term of the policy, unless the premium had been based on materially incorrect information provided by the applicant or insured.

FISCAL IMPACT: There is no fiscal impact on the State of Michigan or its local units of government.

THE APPARENT PROBLEM:

Sometimes, after an insurance customer has received a bill for a homeowner's or automobile insurance policy and paid all or part of the premium, the company will increase the premium owed. This means the customer has to pay the additional amount or face the prospect of losing coverage. Some people believe this should not be permitted, that once a customer has paid all or part of the billed premium, the company should not be allowed to raise its price until the policy term has expired. Insurance customers are often encouraged by the insurance industry, regulators, and financial advisors to shop around for the best insurance prices, and it is the responsibility of regulators to see that a competitive market exists. But if prices are subject to revision even after payments have been submitted, the savings from shopping around can evaporate, leaving customers no choice other than to pay the revised premium or begin shopping around once again. Legislation has been introduced to address this issue.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code (MCL 500.2111b) to prohibit insurance companies from increasing the premium for an automobile or home insurance policy during the term of the policy.

The only exception to this would be if the premium had been based on materially incorrect information provided by the applicant or insured.

Specifically under the bill, the premium could not be increased once the premium is billed by an insurance company or agent and paid in whole or in part by the insurance customer.

ARGUMENTS:

For:

Once customers have entered into a policy contract with an auto or home insurer and paid all or a portion of the billed amount, the company should not be allowed to raise the premium.

Unless the customer had somehow misled the company or its agents in the insurance application, the company should honor the billed amount. If adjustments need to be made, they could be made when the policy came up for renewal. Otherwise, how are consumers to shop around for the best price?

Note that as the bill was reported from committee, it applies only after a company has billed the customer and the customer has paid. As introduced, the bill would have applied to "quoted" prices (although it would still have required payment by the customer for the no-price-increase provision to apply).

Against:

A number of concerns have been raised about the bill. In general, it should be noted that insurance companies are interested in keeping customers rather than offending and losing them, so when prices are increased it is likely based on information not available when the initial price was established, and adjustments are likely to be minor. Insurance prices are not established like prices of consumer goods. Rates are set based on certain characteristics of the risk involved.

Industry representatives have said that the bill needs to be clarified in several ways. For example, its affect on binders needs examination. (Insurers and agents sometimes "bind" coverage and accept payment without full knowledge of the risks that will determine the final price of coverage.) The ability to modify the premium when coverage is modified must be retained. (What if a customer adds a vehicle or makes home improvements during the term of a policy; that is, without a new policy being issued?) There also needs to be clarification of the phrase "materially incorrect information."

POSITIONS:

The Office of Financial and Insurance Services supports the bill. (5-9-07)

The Insurance Institute of Michigan opposes the introduced version of the bill and is reviewing the version reported out of committee. (5-10-07)

The Michigan Association of Insurance Agents testified in opposition to the bill as introduced and said the organization would be neutral with the committee amendment. (5-10-07)

A representative of the Michigan Insurance Coalition testified that the organization opposed the bill as introduced and raised a number of concerns about the bill as currently written. (5-10-07)

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