

SUBJECT: Authorizing a mile-based rating plan for motor vehicle insurance

COMMITTEE: Insurance — committee substitute recommended

VOTE: 7 ayes — Smithee, Averitt, G. Lewis, Moreno, Olivo, Seaman, Thompson
0 nays
1 present, not voting — Burnam
1 absent — Eiland

WITNESSES: For — William Graves, Progressive Insurance
Against — Jay Thompson, Association of Fire and Casualty Companies in Texas, Farm Bureau Insurance Companies
On — Denise Ruggiero, State Farm Insurance Cos.; Rob Schneider, Consumers Union

DIGEST: CSHB 45 would create a pilot program offering alternative rating plans for automobile insurance. It would allow an insurer who issued or renewed a policy of motor vehicle insurance to offer each person who bought coverage a choice between a traditional time-based rating plan and a new mile-based rating plan for collision or other driving-related accident coverage. The insurer could require the policy buyer to use the same rating plan for all vehicles covered under that person's auto policy. A motor vehicle insurance policy using a mile-based rate would have to provide coverage for a specified period and could not terminate coverage after a specified number of miles driven. The pilot program would expire September 1, 2005.

Each insurer that offered the mile-based rating plan would have to file annually for the insurance commissioner's approval a schedule of the insurer's premium rate for motor vehicle insurance based on the insurer's mile-based rating plan and time-based rating plan. The insurer's rate

schedule filing would have to include a statement of any fee to be charged to policyholders for participating in the mile-based rating plan.

The commissioner would have to analyze the premium rates filed by an insurer. If the commissioner found that the filed rates were excessive in comparison to the premium rates charged for similar coverage under a time-based rating plan used by the insurer, the commissioner would have to reject the rates after notice to the insurer and an opportunity for hearing. The commissioner would have to notify the insurer that the rates were rejected not later than the 60th day after the date on which the rates were filed. An insurer could not use rates rejected by the commissioner.

Premium rates used by an insurer under a mile-based rating plan would be exempt from other rate regulation established under provisions regarding motor vehicle or automobile insurance and the benchmark rates established under the flexible rating program for certain insurance lines.

In reporting incurred losses and earned premiums as required by provisions related to motor vehicle or automobile insurance, the flexible rating program for certain lines of insurance, or county mutual insurance companies, an insurer would have to report separately experience based on use of the mile-based rating plans. The classifications used by an insurer for motor vehicles insured under the mile-based rating plan would be exempt from time-based and mile-based rating plans and from the flexible rating program for certain lines of insurance.

The commissioner would have to compile specified information on mile-based rating plans and analyze the effect of mile-based rating plans on premium rates offered for motor vehicle insurance on the basis of time-based rating plans and the number of uninsured motorists in Texas. The commissioner would have to adopt rules governing the use of a mile-based rating plan, including rules regarding prepayment arrangements, proof of financial responsibility, auditing the odometer of a vehicle for the purpose of determining whether coverage was in force, and policy forms.

An insurance policy or other document showing proof of automobile insurance written for a term less than 30 days, if a policy premium was computed using a time-based rating plan, or written for fewer than 1,000

miles, if the policy premium was computed using a mile-based rating plan, could not be used to obtain an original or renewal driver's license, an automobile registration or license plates, or a motor vehicle inspection certificate. Such a policy written for a term of less than 30 days would have to contain an explicit statement to that effect. A similar provision for written disclosure would apply before accepting any premium or fee for a personal automobile insurance policy or binder for a term of less than 30 days.

The bill would take effect September 1, 2001, and would apply only to a motor vehicle insurance policy delivered, issued for delivery, or renewed on or after January 1, 2002. The insurance commissioner would have to adopt all necessary rules not later than December 31, 2001.

**SUPPORTERS
SAY:**

Traditionally, automobile insurance in Texas has been sold in blocks of time. An auto is insured for a month, six months, or a year at a time. Under these policies, insurers calculate that a certain average number of miles are being driven over the duration of the policy.

Some people may drive substantially fewer miles than the average number of miles assumed as the basis of their policies. Elderly people may drive fewer than 5,000 miles per year. Some claim that women as a group drive one-third less than men, while many households have an extra vehicle that they drive infrequently. If certain people who drive less could buy auto insurance in relation to actual miles driven, they could reduce their insurance premiums.

About 20 percent of Texas motorists are uninsured, the ninth highest rate in the nation. Affordability is a major contributing factor. Lower insurance costs could reduce the number of uninsured motorists.

Under CSHB 45, the commissioner would have to reject rates after notice to the insurer and an opportunity for hearing if the commissioner found that the filed rates were excessive in comparison to the premium rates charged for similar coverage under other auto plans. Also, the commissioner would have to adopt rules regarding prepayment arrangements, proof of financial responsibility, audits of odometer readings to determine whether coverage was in force, and policy forms.

This bill would preserve the existing statutory requirements for financial responsibility by specifying that a policy written for fewer than 1,000 miles using a mile-based plan could not be used to obtain a driver's license or renewal, an automobile registration or license plate, or a motor vehicle inspection certificate.

At least one Texas county mutual insurance company, not regulated as to rates and forms, has offered per-mile automobile insurance on a pilot basis. The Legislature should authorize all automobile insurance companies to offer such a commodity.

OPPONENTS
SAY:

CSHB 45 may be based on good intentions, but it contains many ambiguities and possible technical problems that could make implementation difficult, if not impossible. To begin with, the term "mile-based rating plan" is not defined adequately. It is not clear how insurers would develop or offer the product. Also, the term "time-based rating plan" is ambiguous and not used elsewhere in statute. Several interpretations could be drawn from the term time-based rating plan. For some, it could refer to the current system of auto insurance pricing in Texas; for others, it could be the ability to buy insurance for a specific unit of time, such as a two-month period or eight-hours a day.

The bill would not provide a system for determining an insurance rate based on miles driven. Committee testimony referred to odometer readings, although the bill would not outline a system for using odometer readings. Furthermore, it is uncertain if a policyholder could buy a specified amount of miles in advance. The bill would provide that an insurer could not terminate coverage after a specified number of miles had been driven, presumably exceeding the policy's terms. While this provision would seem beneficial to a driver who exceeded authorized mileage, perhaps because of an emergency, the bill would not specify payment methods for additional or supplemental mileage, possibly leading to collection issues.

Under CSHB 45, insurers could file a mile-based rating plan with the commissioner. Currently, insurers have to provide supplemental or supporting information in connection with auto rating systems. Such information would be appropriate for a mile-based rating plan in order to try to establish experience data.

Under a mile-based rating plan, premium rates would be exempt from other rate regulation established under provisions regarding motor vehicle or automobile insurance and the benchmark rates established under the flexible rating program. In the absence of rate regulations and classifications, this could make the establishment of a statistical plan, as required by the bill, difficult.

Although CSHB 45 would not require auto insurers to offer this type of policy, insurers who wanted to sell this product might have difficulty conforming to the bill's provisions. The concept of tying auto rates to usage is not new. A similar concept, pay-at-the-pump, has been debated for years. Before launching into an unregulated mile-based system for automobile rates, the state should balance consumer advantage with regulatory safeguards.

OTHER
OPPONENTS
SAY:

Forty states now include information related to actual miles driven in calculating their automobile rates, although Texas does not. Short of enacting a mile-based rating plan, the state should consider data on actual miles driven in making decisions on the existing benchmark rate system for motor vehicle insurance.

NOTES:

The committee substitute differs from the filed version in many ways, the main one being that the substitute would not make mile-based rating mandatory. Also, the substitute would require the commissioner to approve a rating plan filed annually and to reject rates determined to be excessive.