

Our view - Setting insurance rates isn't state's job

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Holland, MI —

Some Democratic leaders in Michigan are proposing changes in the state's auto insurance regulations that they say would help reduce premiums. But imposing changes that limit the ability of insurers to match price with risk would end up hurting low-risk drivers and could drive some companies out of the state. Michigan can't really reduce auto insurance rates unless it acts to reduce insurers' liabilities.

Michigan has some of the highest auto insurance rates in the country, in part because the state mandates some expensive benefits. Last week, Democratic legislators and the state insurance consumer advocate proposed a series of bills they say would reduce rates. Among other provisions, the legislation would require prior approval of rate increases by the state, ban the use of occupation, education and credit scores as criteria for setting rates, and mandate that companies offer low-cost policies for low-income drivers.

We are concerned with any rules that bar insurers from considering factors that have a sound actuarial basis. Arbitrarily excluding some criteria, such as occupation or zip code, simply shifts costs to customers who actually have lower risks and who deserve lower rates. (The one factor that we question is the use of credit scores, since layoffs can send them plummeting without causing any real change in a customer's driving risk; we would favor excluding sudden job loss or bankruptcy from medical bills from rate-setting criteria.) And while we favor the concept of low-cost options in a state that makes auto insurance mandatory (though anywhere from a fifth to a third of Michigan drivers skirt the law), it's unclear if the \$600 charge proposed by Democrats would cover the cost of even a basic policy. The liability of insurers wouldn't go away — again, other drivers would bear a greater cost.

One market-oriented move that legislators could take to control costs would be to reduce insurance benefit mandates. Michigan is the only state to require insurers to provide unlimited lifetime medical benefits to accident victims. Insurance companies estimate that allowing drivers to opt out of that requirement could cut premiums 15 percent or more.

Reasonable regulation to ensure that insurance premiums are assessed fairly is important. However, we are suspicious of any effort by politicians to try to set prices arbitrarily, whether it's out of legitimate concern for consumers or an effort to curry political favor. One way or another, someone has to pay the cost of insurance — there's no way around that, no matter how badly the politicians wish it.