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FISCAL IMPACT REPORT

ORIGINAL DATE 02/17/09

SPONSOR Ortiz y Pino LAST UPDATED _____ HB _____

SHORT TITLE Mile-Based Care Insurance Rating Plans SB 421

ANALYST Lucero

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Minor			Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

Senate Bill 421 enacts a new section of the New Mexico Insurance Code. The bill allows automobile insurers to offer their customers a rating method where their premiums would be directly related to the number of miles that the vehicle is driven within a specified unit of time. In particular, the bill highlights a rating method where the customer prepays for a set number of miles, or “blocks of miles” of insurance coverage. A block of at least one thousand miles shall be deemed an insured vehicle under the Motor Vehicle Code or Insurance Code.

The bill also establishes some guidelines for such a rating method such as limiting an insurer’s liability for a claim if the insured knowingly makes a material misrepresentation regarding the mileage, fails to allow for an inspection of the vehicle within forty-eight hours of an insurer’s request, or fails to maintain the odometer in working order or misrepresents the operability of the odometer.

FISCAL IMPLICATIONS

There may be minor administrative costs associated with implementing the provisions of this bill for the Public Regulation Commission (PRC) to update statutes, promulgate rules, etc.

SIGNIFICANT ISSUES

According to the Public Regulation Commission (PRC), insurance companies already have the statutory authority to design and implement mileage-based rating plans such as those envisioned by this bill.

ADMINISTRATIVE IMPLICATIONS

This bill would mandate the Superintendent to promulgate rules regarding mileage-based rating plans, regardless of whether such rules are necessary or appropriate.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None at this time.

TECHNICAL ISSUES

The bill defines a “mile-based rating plan” as a rating plan for which the unit of exposure is “a specific number of miles traveled by the insured motor vehicle within a specified unit of time.” Removing the phrase “within a specified unit of time” would improve the definition.

The second sentence of paragraph C states that “A vehicle that is covered by a mile-based rating plan policy that provides a block of at least one thousand miles shall be deemed an insured vehicle under the Motor Vehicle Code or the Insurance Code.” This sentence is unnecessary since an insured vehicle is a vehicle that is currently insured under the terms of the vehicle owner’s insurance policy. There is no need to be more specific.

Paragraphs D and E provide a list of circumstances under which an insurance company would not be liable to pay a claim submitted under a mile-based rating plan policy. While some of these circumstances are already addressed by the Insurance Code, others can and would likely be included within the provisions of the insurance policy. The individual insurance companies are in the best position to develop language within their policies that describes the conditions under which claims would not be paid. Furthermore, the Insurance Code requires that all such policy language be reviewed by, and obtain the prior approval of, the Insurance Division before it can be implemented.

The bill does not have an effective date.

OTHER SUBSTANTIVE ISSUES

The rating plans envisioned by this bill would produce premiums that are directly related to the number of miles driven. For example, a consumer would pay twice the premium for driving 20,000 miles as he would for driving 10,000 miles. While there is obviously a correlation between miles driven and the likelihood of a claim, that correlation appears to be less than linear, meaning that a doubling of miles driven would likely produce an actuarial premium that is less than double.

Automobile insurers have already begun introducing optional rating systems that are based on monitoring mileage as well as driving characteristics.

AMENDMENTS

The PRC suggests the following amendments:

Revise Section 1, paragraph A by striking the phrase “within a specified unit of time.”

Revise Section 1, paragraph C by deleting the entire second sentence.

Delete Section 1, paragraph D.

Delete Section 1, paragraph E.

Revise Section 1, paragraph G to state “The superintendent ~~shall~~ may adopt such rules as are necessary to implement and effectively administer mile-based rating plans.”

Insert a Section 2 that provides an effective date for the legislation.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Insurance companies will continue to be free to design and implement mileage-based rating plans in accordance with marketplace demand and actuarial risk assessment.

DL/svb