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FISCAL IMPACT REPORT

SPONSOR: Silva DATE TYPED: 2/20/03 HB 532

SHORT TITLE: Mile Based Auto Insurance Coverage SB

ANALYST: Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			\$125.0	Recurring	General Fund

SOURCES OF INFORMATION

Responses Received From
Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

House Bill 532 requires auto insurers to begin providing policyholders with the option of having their premium based on the number of miles driven known as “vehicle-mile exposure” instead of on current rating methods known as “vehicle-year exposure”.

Significant Issues

The PRC states expected annual mileage is already a rating factor in pricing auto insurance. Although HB 532 doesn’t make this clear, the intent is likely to base the rate on actual miles driven, which would require certified odometer readings at the beginning and end of each policy period, with appropriate premium adjustments at the expiration of the policy term.

The PRC finds HB 532 unclear on whether the new optional method allows the current array of rating elements (e.g. age, sex, driving record, intended use of vehicle) to remain in place or if it replaces them with miles driven.

HB 532 will require each of the approximately 300 insurance companies actively writing auto insurance in New Mexico to create, file and maintain dual rating systems, to rate each policy both ways, and to submit periodic detailed reports of the results to the Insurance Division. It will

also require the two national insurance statistical reporting organizations to add new data fields to capture experience from mileage-rated policies.

FISCAL IMPLICATIONS

The Insurance Division of the PRC will have to add an actuarial FTE to handle the administrative requirements of HB 532 at an estimated cost of \$125.0.

ADMINISTRATIVE IMPLICATIONS

HB 532 creates a significant new actuarial duty for the Insurance Division. This duty will include reviewing approximately 300 filings of the new rating methodology, analyzing the effect of the new methodology on policyholder premiums and on the number of uninsured vehicles, and promulgating appropriate rules.

TECHNICAL ISSUES

The PRC provided the following:

The term “class” in Section 1-B needs to be defined. This definition should make clear which current rating elements, if any, will be used to define a “class”.

Section 1-E-(2b) requires the Superintendent to analyze the effect of mileage rating on the number of uninsured vehicles. However, no one currently knows the number of uninsured vehicles in New Mexico.

Section 1-E-(3c) mentions that the Superintendent shall make rules regarding “proof of financial responsibility”. This has nothing to do with rating methodology.

Section 1-E-(3d) mentions auditing odometer readings to determine whether coverage is in force. Does this mean that the policyholder purchases a certain number of miles of coverage (like buying a phone card) after which he’s uninsured? If so, this is not made clear in the bill.

DW/lr :yr