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FISCAL IMPACT REPORT

SPONSOR: Moore DATE TYPED: 2/26/03 HB 790

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		
			See Narrative		

Relates to HB 532

SOURCES OF INFORMATION

Responses Received From
 Public Regulation Commission (PRC)
 Taxation & Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 790 requires auto insurers to provide policyholders with the option of obtaining coverage by pre-purchasing a set number of miles of coverage at a set cost per mile (analogous to a phone card) instead of the current method of purchasing coverage for a set period of time.

Significant Issues

HB 790 requires 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 PRC. It will also require the two insurance statistical reporting organizations (ISO and AAIS) to add new data fields to capture experience from mileage-rated policies.

Estimated annual mileage is already an ingredient in pricing auto insurance. The flaw in the current method is the estimate provided by the policyholder is never audited, leaving policyholders with an incentive to underestimate their annual mileage. This un-audited method appears to be in violation of the American Academy of Actuaries' Risk Classification Statement of Principles

stating that rating elements should be designed to “minimize the ability to manipulate or misrepresent a risk’s characteristics” and “should be susceptible to convenient and reliable measurement”.

The PRC notes establishing a system and requirement for certified odometer readings would solve this problem with the current rating methodology as well as produce more equitable premiums among policyholders.

The National Organization for Women supports the concept for “mile based” insurance as being more equitable for women since women generally drive less miles in a year than men, and end up paying more insurance per mile than do men.

TRD believes HB 790 might encourage greater compliance with the Mandatory Financial Responsibility Act. An individual who drives very few miles in a year might be will to pay a lower premium to insure a vehicle.

FISCAL IMPLICATIONS

The Insurance Division will have to add an actuarial FTE to handle the administrative chores contained in the bill. The total annual cost for salary and associated expenses will be \$120.0.

ADMINISTRATIVE IMPLICATIONS

HB 790 creates a significant new actuarial duty for the Insurance Division of the PRC. 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.

RELATIONSHIP

Relates to HB 532, Mile Based Auto Insurance

TECHNICAL ISSUES

The PRC provided the following:

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

DW/yr:njw