
Financial Institutions & Insurance Committee

SSB 5708

Brief Description: Authorizing usage-based rating factors for motor vehicle insurance.

Sponsors: Senate Committee on Financial Institutions, Housing & Insurance (originally sponsored by Senators Eide, Franklin and Kline).

Brief Summary of Substitute Bill

- Allows an insurer to base automobile insurance rates on data that is collected from a recording device installed in the insured vehicle or other information reflecting how the vehicle was operated in the reported period.
- Allows an insurer to keep the usage-based algorithm exempt from public disclosure.

Hearing Date: 3/24/09

Staff: Jon Hedegard (786-7127)

Background:

Every person in this state who operates a motor vehicle must be insured under an insurance liability policy, a liability bond, a certificate of deposit, or be self-insured. The liability coverage must be at least for the amounts required under the financial responsibility statutes.

The Insurance Commissioner (Commissioner) oversees the business of insurance in this state. This includes the regulation of insurance rates and forms (also known as contracts or policies). Automobile rates and forms are filed with the Commissioner and must be approved by the Commissioner prior to use by the insurer.

Automobile rates may be adjusted by any factor as long as that factor is submitted to the Commissioner and is not disapproved. Rates are often adjusted according to certain factors such as the driver's age, sex, marital status, driving pattern, claims history, geographical area, credit

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history and the make, model and year of a vehicle. Certain factors such as safety features, anti-theft devices, and motor vehicle accident prevention courses for seniors must receive a premium reduction in a rate filing by an insurer.

If the Commissioner determines that filed rates are not excessive, inadequate or unfairly discriminatory, then the Commissioner must approve them.

The rate filing and all supporting information accompanying it is subject to public disclosure only after the filing becomes effective.

Actuarial formulas, statistics, and assumptions submitted in support of a rate filing are withheld from public inspection. "Insurance score" or "credit score" models that utilize credit history as a rating factor must be filed for approval of the Commissioner but, by law, are defined to fall within the "actuarially formula" exemption and are not subject to public disclosure. There are specific disclosure requirements for actions taken by an insurer based on credit history.

Summary of Bill:

"Recording device" is defined as "an electronic system, and the physical device or mechanism containing the electronic system, that primarily or incidental to its primary function, preserves or records, in electronic form, data collected by sensors or provided by other systems within a motor vehicle."

"Recording device" includes:

- event data recorders;
- sensing and diagnostic modules;
- electronic control modules;
- automatic crash notification systems;
- geographic information systems; and
- any other device that records and preserves data that can be accessed related to the usage of that motor vehicle.

"Usage-based algorithm" is defined as "any algorithm or formula that is used in the calculation of insurance rates and is based on data that is collected from a recording device that is continuously or temporarily installed in the insured vehicle and is not available from any other source. A usage-based algorithm may also include adjustments, acceptable to the Commissioner, designed to prevent the insurer's use of the algorithm from causing rates to be unfairly discriminatory."

"Usage-based insurance" is defined as "automobile insurance in which the premium is based in part on a usage-based algorithm or other information reflecting how the vehicle was operated in the reported period including, but not necessarily limited to, information reported by an insured."

An insurer must file the usage-based insurance with the Commissioner and obtain the Commissioner's approval prior to selling the usage-based insurance.

An insurer may:

- include the usage-based algorithm in its rate filing. The entire rate filing, including the usage-based algorithm, is subject to public disclosure after the filing becomes effective; or
- keep the usage-based algorithm confidential by filing it separately from its rate filing. In this case, the usage-based algorithm is considered a trade secret and is exempt from public disclosure.

The Commissioner may adopt rules to implement this act.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.