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7 auto insurers denied rate increases

Ruling based on firms' use of drivers' credit scores to set rates

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Associated Press

Seven auto insurance companies aren't getting rate increases in Michigan because they based their rates in part on drivers' credit scores, the state insurance commissioner said Tuesday.

The companies are being denied rate increases because premiums developed using credit scoring "are unfairly discriminatory," Office of Financial and Insurance Regulation Commissioner Ken Ross said.

He added that state rules ban the use of credit scoring to set rates, in part because credit information often has been found to be wrong.

Insurance companies have sued to keep their right to use credit scoring to set rates. They say the ratings are accurate and help many drivers get discounts on their insurance premiums. If they're taken out of the rate formulations, many good drivers would pay higher rates, they warn.

The case now is before the Michigan Supreme Court.

Although the suit remains unresolved, Ross said Tuesday he can deny the rate increases. While his office is prohibited from enforcing the rule against using credit

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STATUS OF RATE INCREASE REQUESTS BY FIRMS

The seven auto insurance companies that have been denied a rate increase by Michigan's Office of Financial and Insurance Regulation:

- Allied Property & Casualty Insurance Co.
- AMCO Insurance Co.
- Farm Bureau General Insurance Company of Michigan
- Farm Bureau Mutual Insurance Company of Michigan
- Frankenmuth Mutual Insurance Co.
- Michigan Millers Mutual Insurance Co.
- Progressive Michigan Insurance Co.

The 13 auto insurance companies that have agreed to a rate freeze for the next year:

- American Bankers Insurance Company of Florida
- American International South Insurance Co.
- American Reliable Insurance
- Electric Insurance Co.
- Essentia Insurance Co.
- Esurance Insurance Co.
- Great Lakes Casualty Insurance Co.
- IDS Property Casualty Insurance Co.
- Liberty Mutual Fire Insurance Co.
- Merchants Mutual Insurance Co.
- Meritplan Insurance Co.
- Pharmacists Mutual Insurance Co.
- Wolverine Mutual Insurance Co.

Source: Office of Financial and Insurance Regulation

Insurers: Ruling might spur lawsuit

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scoring, it's not banned from ruling against rate filings that use such a method, he said.

Challenge possible

Lori Comarton of the Michigan Insurance Institute said insurers are considering filing more legal challenges in light of Ross' latest actions.

Jeffrey L. Junkas, spokesman for the Midwest Region of the American Insurance Association, said the commissioner is wrong to deny insurers the right to consider credit scores when setting rates.

"Insurers have countless studies by state and federal agencies that validate the risk assessment power of credit-based insurance scores," he said in an e-mail to reporters.

Driving behavior

Ross said rates should be based on factors such as a consumer's driving behavior, number of miles driven and number of tickets rather than credit scores, which relate to debt and bill payment history he said is unrelated to the risk of having an accident.

"Insurance credit scoring does not in any way correlate to the safety of a driver," he said.

The seven companies denied increases are big players in the insurance market responsible for about 12 percent of the auto insurance policies issued in Michigan, he said.

Gov. Jennifer Granholm in last month's State of the State address asked auto insurers to freeze rates for 12 months so lawmakers have time to consider changes suggested by the state's insurance advocate he says will reduce rates.

But only 13 small companies accounting for 1 percent to 2 percent of the auto insurance market agreed to the freeze by the March 2 deadline.

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IN BRIEF

12 auto insurers agree to freeze their rates

Twelve auto insurers have agreed to freeze their rates while Michigan lawmakers consider legislation designed to lower the cost of auto insurance.

But 95 other auto insurers selling policies in the state haven't pledged to freeze rates, including many major insurers such as Allstate, Geico and State Farm.

Gov. Jennifer Granholm asked auto insurers in last month's State of the State address to freeze rates for 12 months so lawmakers have time to consider changes suggested by the state's insurance advocate. Monday was the deadline to respond.

The Granholm administration plans to closely scrutinize rate filings submitted by insurers who don't pledge to freeze rates.