

Legislative Analysis



LAPSE OF AUTO INSURANCE DUE TO ACTIVE DUTY

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4177 as introduced
Sponsor: Rep. Dudley Spade
Committee: Insurance

Complete to 3-5-07

A SUMMARY OF HOUSE BILL 4177 AS REPORTED FROM COMMITTEE

The bill would amend the Insurance Code to address instances where an automobile owner allows insurance coverage to lapse while on active duty in the Armed Forces of the United States.

Under the bill, an auto insurance company could not use such a lapse during the six months immediately preceding a person's application for insurance as the sole reason to refuse to insure, refuse to continue to insure, limit available coverages, charge a reinstatement fee, or increase premiums. The applicant would have to indicate on a form provided by the company that active duty service was the reason for the lapse in coverage. This would be an amendment to the portion of the code that limits the kind of underwriting rules that an auto insurer can use. The Insurance Code allows companies, with some exceptions, to use an applicant's failure to maintain insurance during the six months prior to application as a factor in underwriting; the bill would provide an additional exception.

(The bill says it would only apply to an "eligible person." Michigan's no-fault auto insurance system is a "modified take all comers" system under which auto insurance companies can only refuse to provide coverage to persons who, based on certain conduct, are not classified as "eligible persons.")

MCL 500.2118 & 21120

FISCAL IMPACT:

There is no fiscal impact on the State of Michigan or its local units of government.

BACKGROUND INFORMATION:

As mentioned above, Michigan's no-fault auto insurance system is a "modified take all comers" system, under which auto insurers must insure "eligible" customers. Drivers fall out of the "eligible person" category based on certain kinds of driver and owner conduct. The Insurance Code contains provisions that limit the factors an auto insurer can use in underwriting applicants (accepting, rejecting, and classifying them). A company can refuse to insure and can limit coverage available to a driver who has not maintained mandatory insurance coverages in force during the six-month period immediately

preceding the application for insurance. There is, however, an exception to this. If an applicant certifies that a vehicle was not driven or moved during the six-month period, the auto insurer cannot refuse to insure the applicant based on the lack of insurance.

The Office of Financial and Insurance Services, in a written analysis of the bill, says that it issued a clarifying bulletin in June 2004 to auto insurers about their obligation to provide customers with a form to use in certifying that a vehicle had not been driven during the six-month period it had not carried mandatory insurance coverages.

House Bill 4177 provides another, and broader, exception; it would apply to a person who allowed insurance coverage to lapse while on active duty in the Armed Forces. Specifically, an auto insurer could not use this lapse as the sole reason to refuse to insure, refuse to continue to insure, limit available coverages, charge a reinstatement fee, or increase premiums. In testimony before the House Insurance Committee, a representative of the Michigan Insurance Coalition (an industry group) requested an amendment so that this exception would only apply to vehicles not driven or moved and would not apply to cases where family members of an active duty soldier or sailor drove a vehicle uninsured.

POSITIONS:

The Office of Financial and Insurance Services (OFIS) supports the bill. (2-26-07)

The United Veterans Council of Lenawee County supports the bill. (3-1-07)

The Michigan Trial Lawyers Association has indicated support for the bill. (3-1-07)

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

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