

# AAA outlines proposal it says will lower rates

By Tim Richard  
staff writer

Auto owners in the metropolitan Detroit suburbs are most likely to see insurance rates rise, now that Michigan has reverted back to a pre-1980 law.

Called "territorial system," it consists of a series of rings around Detroit. Here, according to the Michigan Insurance Federation, is how it works:

• Detroiters, who have the highest accident and theft rates, pay the highest insurance rates. Suburbanites next to Detroit must pay no less than 90 percent of Detroit's rate. The next ring of suburbs is charged 80 percent — and so on to the 45 percent mark.

• If an insurer charged a Detroit driver \$1,000, the lowest price the insurer could charge any other driver in Michigan would be \$450.

THAT SYSTEM, in law prior to 1985, resulted in two auto insurance markets in Michigan — one in metro Detroit and one in the rest of the state.

Two groups of four companies dominated the two markets. There was almost no competition between the groups.

Here's why: Suppose the loss experience in Traverse City justified a rate of \$200. A company selling in metro Detroit couldn't compete because it would have to charge \$450.

And vice-versa: A company selling for \$200 in Traverse City could charge a top rate of only about \$440. Hence it couldn't afford to compete in the metro Detroit market, according to MIF.

MICHIGAN REVERTED back to the "territorial" system when Gov. John Engler vetoed Senate Bill 691 (H-1), an extension of a 1986 law that expired March 31.

That bill sought to cut auto insurance rates 15 percent.

The arguments were the classic Republican vs. Democratic arguments over cost controls vs. price controls that have reverberated through the State Capitol for a decade.

Democrats and a few Republicans opted for price controls — the 15 percent rate rollback. Their position is supported by consumer groups and the Michigan Trial Lawyers Association.

Most Republicans buy the insurance industry argument: To control prices, you must control costs. That means capping payouts for catastrophic claims, "pain and suffering" and damages where the insured was partly at fault.

AAA MICHIGAN, top firm in the metro Detroit market, last week started a petition drive for 210,000 signatures of registered voters to put its proposal before the Michigan Legislature.

If the Legislature fails to adopt it in a given number of days, the plan would automatically go on the 30 ballot, just like the plan to halt state abortion funding.

Lawrence Givens, AAA Michigan vice president of corporate relations, said that the petition drive, called "Lower Rates Now," would save the average motorist up to \$150 a year. It would do so by offering coverage choices and better controlling legal and medical expenses, the costs most responsible for rising premiums.

State Sen. George Z. Hart, D-Deaeron, opposes AAA's plan because there are no guarantees rates would be lowered in exchange for giving up consumer's rights. Hart said cutting legal expenses is a theme of the AAA proposal but what

## Veto prompts sharp replies

Here is what state and local politicians had to say about \$200, the auto insurance premium cut bill vetoed by Gov. John Engler:

Engler: "A sham. A cruel and cynical hoax. An election year gimmick. So misbegotten and so technically flawed that by its own provisions it cannot possibly achieve its announced major objective of a 15 percent overall rollback of auto insurance rates. There are simply no changes in this bill relating to cost savings."

Sen. George Hart, D-Deaeron (voted yes): Veto is "an outrageous insult to all the consumers. The governor's cozy relationship with the insurance industry must end. Electing an insurance commissioner is a way to break up the governor's romance."

Doug Cruce, former senator from Troy and president of the Michigan Insurance Federation (opposed): "Michigan lost more auto insurers than any other state during the 1980s — 50 between 1982 and 1988 alone. The bill would set up a state price fixing body and restrict the ability of insurers to charge customers based on the accident rate in their area."

Sen. Fred Dillingham, R-Powerline (voted yes with Democrats): The veto is "a slap in the face to Michigan residents demanding an insurance rollback and a kick in the shin to the spirit of bipartisan cooperation. The governor is ignoring close to 50 Republicans who supported this legislation."

AAA doesn't tell you is that they have been notorious for forcing victims into court to collect benefits that they are owed."

If approved, AAA's plan would:

• Allow motorists to choose between \$250,000 and \$5 million worth of medical coverage. Currently, unlimited medical coverage is required for all motorists. Since 1972, more than 90 percent of all medical claims have been under \$250,000.

• Decrease the assessment charged by the Michigan Catastrophic Claims Association (MCCA) for medical coverage. This annual state-mandated charge on each car has

jumped from \$32.60 five years ago to \$110.58 today.

• End duplicate payments. Persons who have both automobile insurance and other insurance to cover medical expenses must coordinate those plans to prevent collecting twice.

• Decrease legal costs by allowing only seriously injured accident victims to sue for non-economic losses and reducing the number of minor injury lawsuits which are filed.

• Prohibit drivers more than 50 percent at fault in an accident from suing for non-economic losses.

• Allow motorists to waive cur-

rently mandated liability coverage which protects them in case they are sued. This option would benefit those who don't need this protection. At the same time, insurance companies would be required to offer motorists coverage for protection should they be injured by an uninsured, at-fault driver.

• Set maximum fees for medical care providers similar to that used for workers' compensation claims.

• Permit discounts for policyholders who are claim-free with the same insurer for the last five consecutive years.

• Create a premium refund stan-

dard — company premiums that exceed claim payments and operating expenses by more than 5 percent would have to be refunded.

• Close the "revolving door" between the state Insurance Bureau and regulated companies. Former insurance commissioners will have to wait two years after leaving state service to work for, or be on the board of, a regulated company.

GIVENS SAID reforms are needed because medical and legal costs have skyrocketed and are the major reason for the rise of auto insurance premiums each year.

"Between 1985 and 1990, our payouts for medical care per insured vehicle increased four times faster than the local inflation rate, while legal payouts increased five times as fast," he said.

Givens said cost controls work. During the 1985-90 time period, AAA Michigan's efforts to combat auto theft reduced claims payouts 9 percent per vehicle for Comprehensive coverage.

"We have heard the arguments against the elimination of unlimited medical coverage and further limitations on the right to sue for pain and suffering," Givens said.

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