

**SENATE BILL REPORT**

**SB 5816**

**AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, MARCH 3, 1993**

**Brief Description:** Concerning automobile insurance territorial rating.

**SPONSORS:** Senators Niemi and Pelz

**SENATE COMMITTEE ON LABOR & COMMERCE**

**Majority Report:** That Substitute Senate Bill No. 5816 be substituted therefor, and the substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Fraser, McAuliffe, Pelz, Sutherland, Vognild, and Wojahn.

**Staff:** Benson Porter (786-7470)

**Hearing Dates:** February 23, 1993; March 3, 1993

**BACKGROUND:**

In determining rates for automobile insurance policies, insurers consider a number of factors. These factors include the past and prospective loss experience, operating expenses, and investment income. In addition, an insurer must consider catastrophe hazards, a reasonable margin for underwriting profit, and all other relevant factors.

As such, Washington's automobile insurers may charge different rates depending upon the location of the vehicle's use or the residence of the insured, employing a territorial rating factor in determining rates. Some interest has been expressed in only allowing the use of territorial rating for certain geographical areas.

**SUMMARY:**

Automobile insurers may include a territorial rating factor in determining automobile insurance rates in Washington. However, insurers may not impose a territorial rating factor that establishes separate territorial rates within a standard metropolitan statistical area.

**EFFECT OF PROPOSED SUBSTITUTE:**

Automobile insurers may continue to use territorial rating factors in determining automobile insurance premiums. An insurer must define a rating territory using recognized landmarks, but each territory must have an aggregate population of at least 100,000 people. When an insurer files to change its rates, an insurer must show that its territories

meet this population requirement. These provisions are to take effect July 1, 1995.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested

**TESTIMONY FOR:**

Some insurers utilize too many small territories in their rate-making process. The original bill, however, creates territories that may be too broad.

**TESTIMONY AGAINST:**

Placing these limitations on an insurer's underwriting fails to account for the different risks in different areas. By requiring standard territories, a consumer's options will be limited because all insurers will then be using the same territories.

**TESTIFIED:** Melodie Bankers, Insurance Commissioner's Office (pro-substitute); Dennis Martin, WA State Trial Lawyers (pro); Basil Badley, American Insurance Assn. (con); Mike Kapphahn, Farmers Insurance Group (con)