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Insurers and Agents Applaud New York Auto Rating Change

Trade groups for New York insurers and agents alike are praising a recently passed bill by state lawmakers that will allow auto insurers to raise or lower their rates by 5 percent over the course of a year without first getting approval of the New York Insurance Department.

It marks the first time in seven years that auto insurers in the Empire State have been able to use so-called "flex rating." In 2001, the Legislature let expire a statute that allowed insurers to vary rates by as much as 7 percent over a year without regulatory approval.

"For the last seven years the government has employed a system of price fixing for auto insurance," said New York Insurance Association President Ellen Melchionni. "The reinstatement of flex rating will allow for a more nimble and competitive market."

Melchionni said the passage of a flex rating bill will encourage more insurers to enter the state's auto market. "This is a great step toward overall regulatory modernization. Streamlining the regulatory process will keep insurance companies in New York and in turn keep rates affordable for consumers," she added.

The bill would take effect Jan. 1; but it first must be signed by Gov. David Paterson, which he is expected to do.

Elsewhere, the move was viewed as major victory in the nationwide battle for rate modernization.

"Passage of this legislation in New York, together with recent developments in other states, demonstrates there is real momentum for progress in rate modernization," said Neil Alldredge, vice president for state and regulatory affairs for the National Association of Mutual Insurance Companies (NAMIC). "More and more, state lawmakers are realizing that restrictive rating laws are not only unnecessary, but also counterproductive, since they stifle competition and ultimately hurt consumers."

Kansas lawmakers recently passed a similar flex rating bill that allows insurer to vary rates up or down by as much as 12 percent. Over the past five years, 20 states have adopted some form of flexibility in insurers ability to set their prices, according to NAMIC, and New York would become the eighth state to implement auto flex rating, along with Alaska, Connecticut, Kansas, Louisiana, North Dakota, Rhode Island, and South Carolina.

New York insurance agents had been key supporters for the return to flex rating for auto insurance in the state.

"We're confident that this will have a positive impact on the insurance industry and consumers," said Neal L. Sullivan, chairman of the Independent Insurance Agents and Brokers and New York.