



**CREDITS FOR COMMERCIAL  
INSURANCE IN MICHIGAN**

**Robert Lutton, CPCU**

# WHERE DO WE BEGIN?

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We are not going to cover the following:

- Deductibles
- Dividend plans, retrospective rating plans
- We will not cover personal lines of insurance



**STRICTLY COMMERCIAL**

# WHAT IS A BULLETIN?

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A bulletin is an agency statement of the agency's interpretation of a statute that it is charged with executing.

Bulletins do not have independent legal effect.

Bulletins are used to inform regulated industries or consumers of agency interpretations of federal or state statutes



# BULLETIN 00-04

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## Concerns

- credit plans – no documentation
- solvency

## Applicable Provisions

- Chapter 24 and 26 of the Michigan Insurance Code



## **MCL 500.2403 (1) (d) & MCL 500.2603 (1) (d)**

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Provides that a differential between casualty or property rates requires reasonable justification supported by a reasonable classification system, by sound actuarial principles, and by actual and credible loss and expense statistics, or in the case of new coverages and classifications, by reasonably anticipated loss and expense experience.

# MCL 500.2403 (1) (d) & MCL 500.2603 (1) (d)

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## Key Points

- Rates shall not be:
  - Excessive
  - Inadequate
  - Unfairly discriminatory
- Goal
  - Rates are adequate



## **MCL 500.2406; MSA 24.12406 (casualty) & MCL 500.2606; MSA 24.12606 (property)**

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- All rating plans have to be filed.
- Authority of the Director of Insurance
  - MCL 500.438 (3)
- Credits of 40%, 50% or higher have been observed.

# **MCL 500.2406; MSA 24.12406 (casualty) & MCL 500.2606; MSA 24.12606 (property)**

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## Compliance Criteria

- It must be filed
- If an insurer files or has filed a rating plan permitting credits and debits that exceed plus or minus 25%, the filing must include actual and credible loss statistics that meet the requirements of Section 2403(1) (d) and/or Section 2603(1) (d).
- Insurers shall maintain documentation in each policyholder file regarding rating plan credits or debits assigned for a period of five years.



# WHAT NEEDS TO BE SUBMITTED OR SHOWN

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## Credit or Debit Plans Greater Than 25%

- Filing justifications
- You must justify your proposed maximum credit and debit percentages as well as the debit and credit percentages for each specific criteria within the schedule rating plan (cooperation with management, safety and security, etc.) by submitting data that shows they are NOT unfairly discriminatory in violation of MCL 500.2110a, MCL 500.2109(1) (c), MCL 500.2403(1) (d), and/or MCL 500.2603(1) (d).

# WHAT NEEDS TO BE SUBMITTED OR SHOWN

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Credit or Debit Plans Greater Than 25% (con't)

- Loss Ratio for Book of Business
- Reasonable Classification System
- Actuarial Support



# CONSENT TO RATE

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## Works For Many Coverages

- Property, Marine, Liability and Worker's Compensation
- Designed for Risks with truly unique characteristics
- Limit on number of submissions

# CONSENT TO RATE

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An individual risk filing submitted via SERFF that contains FIS-0797 Individual Risk Filing Form and a Consent to Rate form signed by the employer might be acceptable if:

1. The insurer identifies that it would refuse to insure the employer if it could not rate it at a higher than standard rate for the work classes that pertain to it.
2. The insurer identifies the employer's unique characteristics compared to other risks of its type.
3. The filing identifies any other unique circumstances for the risk being written (coverage, operations, etc.).

## WHAT STATUTE(S) APPLY

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### **500.2414 Filing requirements; excess rates on specific risks.**

#### Sec. 2414

- Upon the written application of the insured, stating his reasons therefor, filed with and approved by the commissioner, a rate in excess of that provided by a filing otherwise applicable may be used on any specific risk.

# ASSOCIATION AND GROUP CREDITS

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## Purpose

- Promote Loss Control
- Provide Insurance Coverage To Meet The Needs Of Members
- Provide Credit To Members Based On Favorable Loss Experience Of The Program.

# ASSOCIATION AND GROUP CREDITS

## Purpose (con't)

- Applies To Workers Compensation, Property, Casualty
- Discount Amount % - Usually 5% - 10%
- Statutes
  - MCL 500 2403 (1) (d)
  - MCL 500 2603 (1) (d)



# COMMERCIAL PROPERTY AND MARINE

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Applicable Statute

**MCL 500.2603 Rate-making provisions; uniformity**

Sec. 2603

(1) (d) Rates shall not be excessive, inadequate, or unfairly discriminatory regarding credits.



# COMMERCIAL LIABILITY COVERAGE

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Applicable Statute

**MCL 500.2403 Rate-making provisions; uniformity among insurers**

Sec. 2403

(1) (d) Rates shall not be excessive, inadequate, or unfairly discriminatory.

# COMMON CREDIT CRITERIA

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- Premises Condition & Care
- Management
  - Cooperation with insurance carrier
  - Safety Organization
- Medical Facilities

# COMMON CREDIT CRITERIA

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- Safety Devices, Equipment Guarding
- Employees – Selection, Training, Supervision
- Staff Training & Turnover
- Risk / Class Hazard / Classification



# WORKER'S COMPENSATION INSURANCE

Applicable Statute

**MCL 500.2403 Rate-making provisions; uniformity among insurers**

Sec. 2403

(1) (d) Rates shall not be excessive, inadequate, or unfairly discriminatory.

“A cartoonist is someone who has to draw the same thing day after day without repeating himself”

**CHARLES M. SCHULTZ**

## PREMIUM TRIGGER AMOUNT

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- \$5,000 If the payrolls or other exposures developed during an experience period of more than 2 years produced an average annual premium @ manual rates
- \$10,000 If the payrolls or other exposures developed during the last year or past 2 years of the experience period produced a premium at manual rates

# OPTIONS?

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Cost Containment / Managed Care Credit Plans (0 – 5% Average)

- Return To Work Program
  - accurate reporting with medical personnel
  - contact with injured employee
  - return to work program and modified work program
  - written program posted for all to see
  - proximity to medical help & claim reporting

# OPTIONS?

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Cost Containment / Managed Care Credit Plans (0 – 5% Average) (con't)

- Employee pre-employment physical
- Employee drug testing and driving record review  
Health benefit and assistance program
- Favorable experience mod (< 1.00)
- Safety program

# OPTIONS?

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## Tiers For Workers Compensation Insurance

- 2 – 3 Tiers per company
- Clear and objective rating rules that identify which risks will be rated in specific tiers. Must comply with MCL 500.2403 (1) (d).
- Some companies have a tier for a “standard” risk and another tier for “above average” or “less than average” risks.



# IS THERE A WAY OUT?

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- Contains a prominent disclaimer that states “This policy is exempt from the filing requirements of section 2236 of the insurance code of 1956, 1956 PA 218, MCL 500.2236.” or words that are substantially similar.
- For Other Commercial Insurance Rate, Rule, and Policy Form Filings
  - You can exempt the policy forms, rules, and rates from filing by attaching the MCL 500.2236(8)(e)(ii) prominent disclaimer to all new and renewal policies. The exemption from filing works in conjunction with MCL 500.2401(2) (d) and MCL 500.2601(3)(f) to also exempt rules and rates from filing.

# IS THERE A WAY OUT?

## THE DISCLAIMER DOES NOT WORK FOR WORKERS COMEPNSATION INSURANCE!

For Workers Compensation Form Filings

- You can exempt the submitted policy forms from filing by attaching the MCL 500.2236(8) (e) (ii) prominent disclaimer to all new and renewal policies. However, you must continue to submit (to DIFS via SERFF) new and revised workers compensation classification rules and rates.





# Questions

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**Thank You**