

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 15

(Senator Muse)

Finance

Motor Vehicle Insurance - Use of Credit History in Rating Policies

This bill prohibits an insurer, with respect to private passenger motor vehicle insurance, from rating a risk based on the credit history of an applicant or insured in any manner, including (1) the provision or removal of a discount; (2) assigning the insured or applicant to a rating tier; or (3) placing an insured or applicant with an affiliated company. However, the bill repeals the current statutory prohibition against increasing the renewal premium based on the insured's credit history. The bill also repeals current statutory provisions that permit an insurer to use the credit history of an applicant to rate a new policy of private passenger motor vehicle insurance.

The bill applies prospectively to private passenger motor vehicle policies issued, delivered, or renewed in the State.

Fiscal Summary

State Effect: Special fund revenues from the \$125 filing fee collected by the Maryland Insurance Administration increase in FY 2011 to the extent that insurers are required to update forms. The number of these filings cannot be accurately estimated but is likely to be minimal. Expenditures are not affected, as any increase in complaints can be handled with existing budgeted resources.

Maryland Automobile Insurance Fund (MAIF): The bill does not directly affect MAIF finances or operations because MAIF does not use credit history to rate policies.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Potential minimal.

Analysis

Current Law: With respect to private passenger motor vehicle insurance, an insurer may not refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based on the credit history of the insured or applicant. Likewise, an insurer may not require a particular payment plan based on the credit history of the insured or applicant. An insurer may, however, use the credit history of an applicant to rate a new policy of private passenger motor vehicle insurance. Such rating includes the provision or removal of a discount, assigning the applicant to a rating tier, or placing an applicant with an affiliated company.

An insurer that rates a new policy based on the credit history of the applicant:

- may not use a factor on the credit history of the applicant that occurred more than five years prior to issuing the new policy;
- is required to advise an applicant at the time of the application that credit history is used; and
- is required, at the applicant's request, to provide a premium quote that separately identifies the portion of the premium attributable to the applicant's credit history.

In addition, an insurer may not take into consideration the absence of an applicant's credit history, the inability to determine the applicant's credit history, or the number of credit inquiries about an applicant's credit history.

If an insurer rates a new policy based on the credit history of the applicant, the insurer must review the credit history of an insured who was adversely impacted by the use of the insured's credit history at the initial rating of the policy every two years or on request of the insured. The insurer is required to adjust the premium of an insured whose credit history was reviewed to reflect any improvement in the insured's credit history.

An insurer that rates a new policy based on the credit history of the applicant may, if actuarially justified, provide a discount of up to 40% or impose a surcharge of up to 40%.

Background: Current law prohibits insurers, with respect to homeowner's insurance, from rating a risk based, in whole or in part, on the credit history of an applicant or insured in any manner. The bill's provisions extend the same protections to private passenger motor vehicle insurance rating.

Additional Information

Prior Introductions: Identical bills were introduced in 2008 and 2009. SB 866 and HB 1459 of 2008 received a hearing in the Senate Finance Committee and the House Economic Matters Committee, respectively, but no further action was taken on either bill. SB 797 of 2009 received an unfavorable report from the Senate Finance Committee.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Department of Legislative Services

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