

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 31

(Chair, Finance Committee)(By Request - Departmental -
Maryland Insurance Administration)

Finance

Economic Matters

Title Insurance - Rate Making - Use of Rating Organizations for Filings

This departmental bill authorizes the Insurance Commissioner to issue a rating organization license for title insurance. The bill also authorizes, but does not require, a title insurer to fulfill its rate filing obligation to the Commissioner by (1) being a member of or subscriber to a title insurance rating organization that makes filings and (2) authorizing the Commissioner to accept filings on its behalf from the rating organization. A title insurance rating organization may also request a hearing on behalf of its members or subscribers on notice of disapproval of a filing. The bill exempts title insurance rate filings made by a rating organization on behalf of a title insurer from the requirement that the Commissioner make a determination on the filing within a limited time period or the filing is considered approved. Finally, the bill establishes that a title insurance rating organization is subject to the same regulatory oversight provisions as other rating organizations, including being examined at least once every five years.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues decrease to the extent that title insurers join a title rating organization, resulting in fewer total rate and form filings being submitted to MIA each year. Any such impact cannot be reliably estimated at this time but is not expected to be significant, as discussed below. Special fund revenues increase negligibly for each title rating organization licensed by MIA due to one-time licensing fees. MIA may experience workload efficiencies due to fewer total filings and more consistency in remaining filings from title insurers. MIA can handle issuance of the bill's new license and examinations of title rating organizations using existing resources.

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

Small Business Effect: MIA has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law:

Title Insurer Rate Filings

Each insurer in the State must file with the Commissioner all rates, supplementary rate information, policy forms, and endorsements as well as all modifications of rates, supplementary rate information, policy forms, and endorsements that the insurer proposes to use. An insurer may include in a filing any additional relevant supporting information. The Commissioner may also require a filer to provide this supporting information. Generally, a filing may not take effect until 30 working days after it is filed; however, a rate filing may take effect as soon as it has been filed with MIA. Any filing is considered approved unless disapproved by the Commissioner in the 30-day waiting period. The Commissioner must review such a filing as soon as reasonably possible. For title insurance, a rate filing is considered approved unless disapproved by the Commissioner within 15 days after filing; however, this time period may be extended to 30 days. MIA charges a fee of \$125 per filing.

In establishing title insurance rates, an insurer must take into account (1) past and prospective loss experience within and outside the State; (2) a reasonable margin for profit and contingencies; (3) the cost of participating insurance; (4) the percentage to be allocated to reserve; (5) operating expenses; and (6) all other relevant factors fairly attributable to the business of title insurance. The rates must be reasonable and adequate for the applicable class of risks, and they may not discriminate unfairly between risks that involve essentially the same hazards and expense elements.

Rating Organizations

A rating organization is an organization that develops rates and sometimes forms to be used by insurers who join the rating organization. The organization then files the rates and forms on behalf of each member insurer to fulfill the insurer's rate and form filing obligations. To act as a rating organization in the State, an entity must obtain a license from the Commissioner. An applicant must include specified information with its application, and the Commissioner must grant or deny the request within 60 days. A license must be issued if (1) the applicant is found to be competent, trustworthy, and otherwise qualified to act as

a rating organization and (2) its governing documents, rules, and regulations conform to State law. There is a one-time license fee of \$25.

MIA is required to conduct a financial examination of each rating organization licensed in the State at least once every five years. The purpose of the examinations is to ensure financial solvency and compliance with State insurance laws. The entity being examined must pay the reasonable costs for the examination.

For many types of insurance, an insurer must meet its rate filing requirement by (1) being a member of or subscriber to a licensed rating organization that makes filings and (2) authorizing the Commissioner to accept filings on its behalf from the rating organization. The use of a rating organization is not authorized for title insurance, reinsurance, specified types of marine insurance, specified types of aircraft insurance, and the Chesapeake Employers' Insurance Company (Chesapeake) (except as provided by Chapter 36 of 2015).

For workers' compensation insurance, insurers are required to be a member of a rating organization. The National Council on Compensation Insurance is the designated organization. Chesapeake is required to be a member, like other workers' compensation insurers, by Chapter 36 of 2015.

Background: There are currently 21 title insurers (resident and nonresident) licensed to do business in the State. MIA advises that the ability to create a rating organization for title insurance in the State would promote cooperation among member title insurers in the rate making process and promote the public welfare by helping to ensure that rates in Maryland are not excessive, inadequate, or unfairly discriminatory. Additionally, the regulatory process would be simplified to the extent that title insurers join a rating organization, become subject to the same rates, and use the rating organization's industry standard forms.

State Revenues: MIA special fund revenues decrease as title insurance rating organizations begin to make rate and form filings on behalf of multiple insurers, resulting in fewer overall filings. Even though the total impact depends on how many insurers join a rating organization and, therefore, cannot be reliably estimated at this time, the overall revenue impact is not expected to be significant because there are only 21 title insurers licensed to do business in the State. *For illustrative purposes only*, if the bill results in 105 fewer rate and form filings per year (five per title insurer), MIA special fund revenues only decrease by \$13,125.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration; Department of Legislative Services

Fiscal Note History: First Reader - January 10, 2017
fn/ljm Third Reader - March 21, 2017
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Title Insurance – Rating Bureau

BILL NUMBER: SB 31

PREPARED BY:
(Dept./Agency) Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

 WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS