HB 1670

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1670 (Delegate Jalisi, *et al.*)
Economic Matters

Motor Vehicle Insurance - Use of Credit History in Rating Policies

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This bill prohibits a private passenger motor vehicle insurer from rating a risk (insurance policy) using the credit history of an applicant and makes conforming changes. As a result of the bill's changes, the credit history of an insured or applicant may no longer be used by a private passenger automobile insurer in any way. The bill applies to all private passenger motor vehicle insurance policies issued, delivered, or renewed in the State on or after October 1, 2018.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues increase minimally in FY 2019 due to $125 rate and form filing fees; the volume of the filings that must be reviewed may necessitate additional contractual support in FY 2019 only. However, MIA special fund expenditures increase minimally to the extent the bill results in complaints related to changes in the rate making standards. General fund revenues may be affected, as discussed below.

Maryland Automobile Insurance Fund (MAIF) Effect: The bill does not directly affect MAIF finances or operations because MAIF does not use credit history for any purpose.

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

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill specifies that credit history may not be used to rate a risk 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.

Current Law: "Credit history" means any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's creditworthiness, credit standing, or credit capacity used for the purpose of determining personal lines insurance premiums or eligibility for coverage.

A private passenger motor vehicle insurer may not (1) refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or in part, on the credit history of an insured or applicant or (2) require a particular payment plan based, in whole or in part, on the credit history of an insured or applicant. However, an insurer may use the credit history of an applicant to rate a new policy; an insurer that does so:

- may not use a factor on the applicant's credit history that occurred more than five years prior to issuing the new policy;
- must advise the applicant that credit history is used and, at the applicant's request, provide a premium quote that separately identifies the portion of the premium attributable to the applicant's credit history;
- may not use the absence of or inability to determine the applicant's credit history or the number of credit inquiries about the applicant's credit history as factors in the rating;
- must review the credit history of an insured whose premium was raised due to credit history at initial rating every two years or on request of the insured (and disclose this requirement to the applicant); and
- based on this periodic review, must adjust the premium to reflect any improvement in the insured's credit history.

An insurer that uses an applicant's credit history to rate a policy may provide a discount of up to 40% or impose a surcharge of up to 40% based on the credit history.

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.

Background: In Maryland, auto insurers use complex formulas with numerous variables to determine premium rates for insurance policies. Insurers attempt to measure how likely an insured is to make claims or have accidents based on the characteristics of the driver and the insured vehicle. The characteristics used by insurers include driving records (*e.g.*, accidents and violations), county or zip code of residence, gender, age, marital status, prior insurance coverage history, and age, make, and model of the vehicle being insured.

Many insurers also offer discounts for behaviors that correlate with good driving and less expensive claims in the event of an accident. For example, some insurers offer discounts for good driving records, safety devices installed in the vehicle and/or anti-theft devices installed in the vehicle, and good grades if the insured is a student.

MAIF Fiscal Effect: MAIF advises that it does not use an insured's or applicant's credit history for any reason, including to rate an insurance policy. Therefore, the bill does not affect MAIF operations or finances.

State Revenues: Title 6 of the Insurance Article imposes a 2% premium tax on each authorized insurance company, surplus lines broker, or unauthorized insurance company that sells, or an individual who independently procures, any type of insurance coverage upon a risk that is located in the State. Revenues accrue to the general fund.

Currently available information indicates that private passenger automobile insurers in the State are uncertain as to what effect the bill has on premiums for private passenger automobile insurance policies. Thus, the direction and extent of any impact on general fund revenues through the premium tax cannot be reliably estimated at this time.

Additional Information

Prior Introductions: Similar bills were introduced in 2008, 2009, 2010, and 2012. SB785 of 2012 was withdrawn. SB 15 of 2010 received an unfavorable report from the Senate Finance Committee. Its cross file, HB 708, was withdrawn. SB 797 of 2009 received an unfavorable report from the Senate Finance Committee. 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.

Cross File: SB 72 (Senator Young) - Finance.

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

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