

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1164 (Delegate B. Barnes, *et al.*)  
Environment and Transportation

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Insurance - Motor Vehicles - Salvage

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This bill requires the Motor Vehicle Administration (MVA) to establish a new vehicle value threshold for determining whether a vehicle is “salvage” (and, thus, repeals the current 75% of fair market value threshold). MVA must use a formula (or other method) that provides an insurance company flexibility in determining when to declare a vehicle salvage. The bill also makes conforming changes.

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Fiscal Summary

**State Effect:** General fund revenues may be affected, as discussed below. MVA can implement the bill’s requirements with existing resources.

**Maryland Automobile Insurance Fund (MAIF) Effect:** MAIF’s operations and finances may be affected, as discussed below.

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

**Small Business Effect:** Minimal.

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Analysis

**Current Law/Background:** For automobile insurance policies, vehicles that become a “total loss” are frequently considered “salvage.” “Total loss” is the technical term for when a motor vehicle is “totaled,” meaning that the cost to repair the vehicle exceeds the value the vehicle would have once it is repaired.

“Salvage” refers to a vehicle that has been (1) damaged to the extent that the cost to repair the vehicle for legal operation on a highway exceeds 75% of the fair market value of the vehicle prior to sustaining the damage; (2) acquired by an insurance company as a result of a claim settlement; or (3) acquired by an automotive dismantler and recycler as an abandoned vehicle or for rebuilding or use as parts. However, a vehicle is not considered acquired by an insurance company if an owner retains possession of the vehicle upon settlement of a claim concerning the vehicle by the insurance company.

### *Salvage Certificates*

A salvage certificate may be issued, under specified conditions, to an insurance company (or its authorized agent) that acquires a vehicle after a claim settlement, an automotive dismantler and recycler that acquires a salvage vehicle from a source other than an insurance company, or any other person that acquires or retains ownership of a vehicle that meets the definition of salvage.

For each vehicle that is acquired as a result of a claim settlement arising from an accident that occurred in the State, an insurance company (or its authorized agent) must apply (1) for a salvage certificate on the appropriate form for a vehicle titled in the State or (2) electronically for a salvage certificate for a vehicle titled in another jurisdiction. The application must be accompanied by (1) the certificate of title (or, if appropriate, an affidavit of ownership); (2) one of several statements by the insurance company regarding the condition of the vehicle; and (3) the required fee. A salvage certificate must contain a conspicuous notation by MVA describing which of the required statements regarding the condition of the vehicle are applicable.

To determine the cost to repair a vehicle for highway operation, a person must exclude the cost of (1) towing, storage, or vehicle rental or (2) repairing cosmetic damage.

The calculation under the 75% cost of repair threshold may not affect the right of an insurer (or a vehicle owner) to make an economic or safety-related decision to not repair the vehicle.

MVA must adopt regulations to implement these requirements in consultation with the Department of State Police and other interested parties.

### *Salvage Vehicles – Certificate of Title (Stolen Vehicles)*

When an insurance company makes a claim settlement on a vehicle that has been stolen, the company must apply for a salvage certificate as specified. Upon receipt of an application, MVA must make the appropriate notation in its records and may not issue the salvage certificate until the vehicle is recovered.

When a vehicle that has been stolen is recovered, MVA must (1) issue a salvage certificate for the vehicle if the insurance company submits the proper certification or (2) issue a certificate of title in the name of the insurance company in lieu of a salvage certificate if the insurance company states that the vehicle has sustained damage (except for flood damage) that costs 75% or less than the fair market value of the vehicle to repair.

**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.

The 75% value threshold is used by insurers to determine when a total loss vehicle is considered salvage. If MVA alters this threshold under the bill, insurers in the State may experience increased or decreased settlement costs when a vehicle is a total loss. As such, the direction and extent of any impact on general fund revenues through the premium tax depends on MVA's determination under the bill and, thus, cannot be reliably estimated at this time.

**MAIF Effect:** Similar to other insurers in the State, any effect on MAIF's operations and finances depends on the extent to which MVA modifies the current value threshold for determining when a vehicle should be declared salvage. Therefore, the effect of the bill on MAIF cannot be determined at this time.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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