

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 264 (The Speaker)(Administration)

Economic Matters

Referred to Judicial Proceedings and Finance

Insurance Fraud

This amended Administration bill prohibits a person, for personal gain, from contacting an individual injured by a motor vehicle for the purpose of encouraging that individual to retain a lawyer or to seek care from a health care practitioner. In addition, the bill prohibits a lawyer or health care practitioner from employing or compensating any person for the purpose of having that person solicit clients for the lawyer or health care practitioner. A person violating these provisions is guilty of a fraudulent insurance act and may be fined up to \$10,000 or imprisoned for up to 15 years, or both.

The bill provides that the Insurance Fraud Division must notify the appropriate professional licensing board or disciplinary body of any evidence of insurance fraud involving professionals or any evidence of gross over utilization of health care services. The State Board of Chiropractic Examiners, the State Board of Physical Therapy Examiners, and the State Board of Physician Quality Assurance may deny a license to any applicant, reprimand any licensee, place any licensee on probation, or suspend or revoke a license if the applicant or licensee grossly over utilizes health care services or is convicted of insurance fraud.

The bill is effective July 1, 1996.

Fiscal Summary

State Effect: To the extent the bill reduces insurance fraud, expenditures could decrease for automobile accident claims involving State vehicles. In addition, revenues and expenditures could increase due to the bill's penalty provisions.

Local Effect: To the extent the bill reduces insurance fraud, expenditures could decrease for automobile insurance premiums or accident claims. In addition, revenues and expenditures could increase due to the bill's penalty provisions.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

State Revenues: The bill expands the definition of a "fraudulent insurance act." The maximum monetary penalty for committing a fraudulent insurance act is \$10,000 per violation. Thus general fund revenues could increase, depending on the number of convictions and fines imposed for those cases heard in the District Court.

State Expenditures: The State owns 12,376 vehicles and is self-insured against losses. Over the past three years, the State incurred \$8.3 million in losses or an average annual loss of \$2.8 million. This bill could reduce the State's exposure to risk and future claims by combating insurance fraud. However, a reduction, if any, in future claim expenses cannot be reliably estimated at this time.

The bill expands the definition of a "fraudulent insurance act." The maximum incarceration penalty for a fraudulent insurance act is 15 years. General fund revenues could increase if more people are committed to correctional or detention facilities. Persons serving a sentence longer than 12 months are incarcerated in a Division of Correction facility. In fiscal 1997 the average monthly cost per inmate is estimated at \$1,400. Persons serving 12 months or less are sentenced to a local detention facility. The State reimburses counties for part of their per diem rate after a person has served 90 days. State per diem reimbursements for fiscal 1997 are estimated at \$10 to \$48 per inmate depending upon the jurisdiction.

Any increased activities for the Insurance Fraud Division, the State Board of Chiropractic Examiners, the State Board of Physical Therapy Examiners, and the State Board of Physician Quality Assurance could be handled with existing resources.

Local Revenues: The bill expands the definition of a "fraudulent insurance act." Local revenues could increase, depending on the number of convictions and the fines imposed, for those cases heard in the circuit courts. The maximum monetary penalty for committing insurance fraud is \$10,000, per violation.

Local Expenditures: The bill could reduce a local unit's automobile insurance premiums or claims expenses by combating insurance fraud. However, a reduction, if any, in future premiums or claims cannot be reliably estimated at this time.

Local expenditures could increase if more people are convicted of insurance fraud and incarcerated in a local detention facility. Counties pay the full cost of incarceration for people in their facilities for the first 90 days of the sentence, plus part of the per diem cost after 90 days. Per diem operating costs of local detention facilities are expected to range from \$19 to \$96 per inmate in fiscal 1997.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Office of Administrative Hearings, Department of Budget and Fiscal Planning, Department of Health and Mental Hygiene, State Treasurer, Department of Fiscal Services

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