HB 341

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 341 (Delegate Leopold, *et al.*)
Economic Matters

Insurance - Motor Vehicle Accident Compensation and Cost Savings Act

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This bill establishes an enhanced no-fault component to the motor vehicle liability insurance system. The bill replaces the mandatory personal injury protection (PIP) and uninsured motorist (UM) coverages with "basic personal compensation" auto insurance of $25,000, which is mandatory no-fault coverage. The minimum bodily injury liability and property damage liability insurance requirements remain the same. Consumers retain the ability to seek damages based on fault for noneconomic loss, such as pain and suffering, in serious injury cases only, and for uncompensated economic loss in all cases.

This bill takes effect October 1, 1998.

Fiscal Summary

State Effect: Assuming a 17% decrease in premiums charged, insurance premium tax revenues could decrease by $7.1 million annually beginning in FY 2000. Indeterminate increase in general fund revenues in FY 1999 due to one-time fees collected by the Maryland Insurance Administration. Increased expenditures by MIA of $137,400 in FY 1999 and $45,800 in FY 2000 to handle the additional filings. Potential significant decrease in general fund expenditures to the extent that the bill reduces the State's liability for motor vehicle accidents.

Local Effect: Potential decrease in expenditures as discussed below.

Maryland Automobile Insurance Fund (MAIF): Potential significant increase in expenditures by MAIF's Uninsured Division. Significant decrease in MAIF premiums.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Bill Summary: Major provisions of this bill include:

- repeals provisions in the Insurance Article regarding primary coverage of motor vehicle insurance;

- requires every motor vehicle registered in the State to be insured for basic personal compensation of at least $25,000, in addition to the current law requirements of at least $20,000 per person, $40,000 per accident of bodily injury liability coverage, and at least $10,000 of property damage liability insurance;

- specifies that insurers are not obliged to provide personal compensation benefits to or on behalf of any injured person who was: committing a felony, driving under the influence of alcohol or illegal drugs, operating a motor vehicle with three or fewer load bearing wheels, or an uninsured motorist;

- specifies that under basic or added personal compensation, medical expenses are payable within two years of the date of the accident;

- specifies the priority order for claiming benefits and prohibits duplicate benefits;

- prohibits a cause of action for injury other than for uncompensated economic loss, except in cases of serious injury;

- provides for a cause of action and subrogation in cases where the negligent party is convicted of driving under the influence of alcohol or drugs, or of a felony in connection with the accident;

- provides that disputes between an insurer and an injured person must be submitted to binding arbitration; and

- requires that savings from the bill be promptly passed on to consumers.

State Revenues: The bill establishes a system of no-fault automobile insurance which includes provisions to prohibit noneconomic losses unless a person suffers a serious injury. As a result of decreased claims, automobile insurance premiums would decline. However, the effect would probably not be felt until the second year after implementation.

It is assumed that automobile insurance premiums would decrease by 17% on average. The

State collects a 2% premium tax on gross direct written premiums. In calendar 1995, the latest year for which information is available, the State collected $42 million in premium taxes on private passenger automobile insurance premiums of $2.1 billion. Based on the assumptions provided above, private passenger auto premium tax revenues would decrease $7.1 million in fiscal 2000, reflecting the bill's October 1, 1998 effective date.

General fund revenues could increase by an indeterminate amount since insurance companies would be subject to $100 rate and form filing fees collected by the Maryland Insurance Administration. The number of insurers who will file new rates and forms as a result of the bill cannot be reliably estimated at this time, since rate and form filings often combine several rate and policy amendments at one time.

State Expenditures: General fund expenditures could increase by an estimated $137,367 in fiscal 1999, which accounts for the bill's October 1, 1998 effective date, and $45,789 in fiscal 2000. This estimate reflects the cost of hiring four MIA Specialists III on a contractual basis to handle the increased workload from additional filings. MIA anticipates over 2,000 additional filings, based on 529 auto insurers making two sets of filings each. The total estimate of $183,156 for the one-year period (October 1, 1998 to September 30, 1999) includes salaries, fringe benefits, and operating expenses.

There are 7,927 vehicles in the State fleet, not including transit buses, motorcycles, or vehicles owned by the University of Maryland. The State is self-insured against losses. Based on actual losses for 1995 and 1996 and estimates for 1997 and 1998, the State incurs average annual losses of about $3.3 million. A no-fault auto insurance system could significantly reduce the State's risks and future claim payments. However, any reduction cannot be reliably estimated at this time.

A no-fault system could reduce the District Court's case load to the extent that vehicle liability litigation is reduced. Any decrease in the District Court's workload is not expected to materially affect the Judiciary's finances.

The Motor Vehicle Administration (MVA) would need to modify language in the Driver's Handbook relating to vehicle insurance. The cost of this one-time change would be minimal and could be absorbed within existing resources.

Local Expenditures: Local expenditures could decrease to the extent that a no-fault auto insurance system would reduce the local unit's insurance premiums or claims. Any reduction is indeterminate at this time, but presumed to be significant.

Maryland Automobile Insurance Fund (MAIF): MAIF advises that the abolition of uninsured motorist property damage coverage as mandatory and the abolition of the requirement that insurers offer collision coverage would significantly increase MAIF's uninsured division's claim payouts since more damages would be eligible for payment.

MAIF estimates that claim payouts could increase as much as $36.4 million, based on MAIF's current loss payments and the assumption that other carriers incur these types of losses, but at half MAIF's rate. Currently, the uninsured division's losses without expenses are $3.0 million and the uninsured division only receives funding from uninsured motorist penalty fees collected by MVA of about $3.1 million.

MAIF's rates for automobile insurance would decrease, on average, 16.9% statewide as demonstrated on the following table:

Territory	Premium	Dollar Decrease	Percentage Decrease
Baltimore City	$1,664	(251)	-15.1
Inner Baltimore Co.	$1,341	(220)	-16.4
Outer Baltimore Co.	$1,161	(201)	-17.3
Inner Montgomery Co.	$922	(155)	-16.8
Outer Montgomery Co.	$752	(118)	-15.7
Inner Prince George's	$975	(213)	-21.8
Outer Prince George's	$798	(147)	-18.4
Eastern Shore	$579	(85)	-14.7
Remainder	$711	(103)	-14.5
Statewide	**$961**	**(163)**	**-16.9**

Small Business Effect: Small businesses could realize savings to the extent that a no-fault auto insurance system would reduce their insurance premiums or claims. Small insurance agents and brokers who are paid by commission may experience a loss of income as premiums decrease.

Information Source(s): Department of Budget and Management (State Fleet), Department of Transportation, Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Fiscal Services

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