

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 192 (Senator Della, *et al.*)

Finance

**Competitive Rating - Private Passenger Motor Vehicle and Homeowners
Insurance - Repeal**

This bill repeals competitive rating for private passenger motor vehicle insurance and homeowners insurance. The repeal reestablishes the prior approval method of rate regulation for these lines of insurance. The bill also repeals a provision that allows the Commissioner to hold a rate to be excessive without determining whether a reasonable degree of competition exists for personal lines property insurance and casualty insurance under certain circumstances. The bill clarifies that competitive rating applies to workers' compensation insurance and employer's liability insurance.

Fiscal Summary

State Effect: Potential indeterminate decrease in revenues from the insurance premium tax, as discussed below. The bill's requirements could be handled with existing resources by the Maryland Insurance Administration (MIA).

Local Effect: None.

Small Business Effect: Potential minimal effect on small businesses as discussed below.

Fiscal Analysis

Background: Chapter 352 of 1995 established competitive rating for those lines of insurance for which market competition seems to exist, including homeowners insurance and automobile insurance. Theoretically, the increased freedom of competitive rating relative to the prior approval method would allow companies to change rates as the market changes, and compete for business without going through a lengthy approval process, yet still allow the State some authority to intervene.

According to the MIA, between July 1, 1995 and October 11, 1996, 36 companies filed

premium changes for homeowners insurance policies sold in Maryland. Some of the changes were decreases, while others were increases. The average of all premium changes filed was +3.4% and the weighted average, which takes into account the market share of each of the 36 companies, was +6.9%. During the same time period, 52 companies filed changes for private passenger auto insurance policies sold in Maryland. The average of all premium changes filed was +3.9% and the weighted average was +2.3%. It is noted that last year Maryland's two largest homeowner insurers raised their rates, on average, by 8% and 17%, with increases of as much as 44% in certain parts of the State. Auto insurance rates increased by as much as 70% in some parts of the State.

State Revenues: A return to the prior approval method could delay the implementation of a rate change filed by an insurer by approximately two months. To the extent that prior approval delays or prevents private passenger motor vehicle or homeowners insurance rate increases, revenues from the 2% insurance premium tax would decrease.

Small Business Effect: Insurance agents and brokers, nearly all of which are small businesses, may experience a loss of commission income, which is based on premiums charged, during any delay in the implementation of a private passenger motor vehicle or homeowners insurance rate increase filed by an insurer.

To the extent that the requirement of prior approval delays or prevents rate increases, policyholders would benefit from lower rates.

Additional Comments: On November 19, 1996, the Insurance Commissioner announced proposed regulations establishing guidelines for use in determining when a rate change for a personal lines filing is excessive. Under the proposed guidelines, a premium rate increase will be scrutinized only if (1) the increase is 15% or more over the previous rate; or (2) the expected loss ratio is less than 65%, i.e., less than 65 cents of each premium dollar is to be spent to pay claims. If either circumstance exists, the Commissioner may conduct a public hearing to determine whether the rate is excessive. The guidelines require the Commissioner to consider the reasonableness of the insurer's expenses, the insurer's operating methods and anticipated expenses, the reasonableness of provisions for contingencies and profits, and whether the rate is likely to produce a profit that is unreasonably high in relation to services provided. As of this writing, the regulations are still pending.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Department of Fiscal Services

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