

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 855 (Senator Conway, *et al.*)
Finance

**Automobile Insurance - Rate Making Principles -
Geographic Terms and Credit History**

This bill prohibits an auto insurer from expressing any underlying risk consideration in geographic terms or using any rating territory smaller than the entire State in the classification of any rate. The bill also prohibits an insurer from considering the credit history of the insured for purposes of reclassifying an insured in a classification that entails a higher premium.

Fiscal Summary

State Effect: Indeterminate increase in general fund revenues due to one-time fees collected by the Maryland Insurance Administration. Expenditures could increase \$27,600 in FY 1998 and \$9,200 in FY 1999 in order to handle increased complaints.

Local Effect: The effect on expenditures would vary depending on the location. Revenues would not be affected.

Maryland Automobile Insurance Fund (MAIF): MAIF would readjust its base rates to a statewide average premium of about \$1,000 for private passenger business.

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

Fiscal Analysis

State Revenues: General fund revenues would increase by an indeterminate amount since auto insurance companies would be subject to \$100 rate and form filing fees collected by the Maryland Insurance Administration (MIA). The number of insurers who will file new rates and forms as a result of the bill's requirements cannot be reliably estimated at this time, since

rate and form filings often combine several rate and policy amendments at one time. Assuming all companies make revenue neutral changes in their rates, there would be no net change in total premium tax revenues.

State Expenditures: General fund expenditures could increase by an estimated \$27,564 in fiscal 1998, which reflects the October 1, 1997 effective date, and \$9,188 in fiscal 1999. This estimate reflects the cost of hiring one contractual investigator (MIA Specialist I) for a period of one year to handle increased complaints. The total estimate of \$36,752 for the one-year period (October 1, 1997 to September 30, 1998) includes a salary, fringe benefits, and operating expenses.

Local Expenditures: The effect on counties and municipalities that purchase auto insurance varies depending on the location. Local expenditures for insurance premiums would decrease in urban areas; local expenditures for insurance premiums would increase in rural and suburban areas.

Maryland Automobile Insurance Fund (MAIF): MAIF would adjust its rates in order to collect the same total amount of premiums. MAIF advises that a new statewide average premium for MAIF private passenger insureds would be \$969. The change would affect current territorial rates as shown below.

Territory	1996 Average Premium	Change in Dollars	Percentage Change
Baltimore City	1,518	(549)	-36.2
5-miles Baltimore	1,390	(421)	-30.3
Baltimore Outer	1,254	(285)	-22.7
Montgomery County Inner	1,008	(39)	-3.9
Montgomery County Outer	861	108	12.5
Prince George's County Inner	988	(19)	-1.9
Prince George's County Outer	869	100	11.5
Eastern Shore	688	281	40.8
Remainder of the State	822	147	17.9

Small Business Effect: The impact on small businesses depends on the location of the businesses. Commercial auto insurance rates in urban areas would decrease, while rates in

rural and suburban areas would increase.

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

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