

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 88 (Delegate Pendergrass)
Economic Matters

Automobile Insurance - Uninsured Motorists - Defense by Carrier

This bill prohibits an auto insurer from entering a defense on behalf of an uninsured motorist against the insurer's insured motorist. This provision applies in an action for damages in civil court brought by an insured (1) against the insurer under the insured's uninsured motorist coverage; or (2) against an uninsured motorist.

Fiscal Summary

State Effect: General fund revenues would increase by about \$10,000 in FY 1998 only due to one-time filing fees collected by the Maryland Insurance Administration. Potential indeterminate increase in revenues from insurance premium taxes. Expenditures would not be affected.

Local Effect: None.

Maryland Automobile Insurance Fund (MAIF): Potential indeterminate increase in claims on the Maryland Automobile Insurance Fund (MAIF).

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

Fiscal Analysis

Background: Currently, in uninsured motorist claims, companies are allowed to defend cases on behalf of the uninsured motorist even when the action is brought by the company's own insured. Prohibiting this practice could create a risk of fraudulent claims when an insured driver has an accident with an uninsured driver. If unchecked by a defense on behalf of the uninsured motorist, the insured driver could provide incorrect information regarding liability or exaggerate the extent of injuries and thus, increase claims.

State Revenues: Approximately 100 independent insurers will file revised forms at \$100 per

filing, general fund revenues would increase \$10,000 in fiscal 1998.

Since auto insurance premiums are based in part on the claims experience of the pool of insureds, if uninsured motorist claims in the State increase, insureds could realize increased premiums. Any increase in premiums would result in an increase in revenues, based on the 2% premium tax. The amount of any increase in premiums, which would then be subject to the premium tax, cannot be reliably determined at this time.

Maryland Automobile Insurance Fund (MAIF): Since auto insurance premiums are based in part on the claims experience of the pool of insureds, if MAIF's uninsured motorist claims increase, MAIF insureds could realize increased premiums. However, any increased claims would be offset to some extent by savings in costs associated with MAIF entering a defense on behalf of the uninsured motorist. MAIF spent over \$500,000 defending uninsured motorists in 1996. For a point of reference, MAIF's uninsured motorist claims were about \$12 million in 1996.

Small Business Effect: Auto insurance premiums are based in part on the claims experience of the pool of insureds. To the extent that uninsured motorist claims increase as a result of this bill, insureds, including small businesses and consumers, could realize increased premiums. Any impact is expected to be minimal since this bill only pertains to uninsured motorist coverage and because increased claims would be partially offset by savings in costs associated with an insurer entering a defense on behalf of the uninsured motorist.

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

Fiscal Note History: First Reader - January 31, 1997

ncs

Analysis by: Sarah Dickerson

Reviewed by: Paul Ballou

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710