

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 330 (Delegate Leopold. *et al.*)

Economic Matters

Insurance - Motor Vehicle Accident Compensation and Cost Savings Act

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, 1999.

Fiscal Summary

State Effect: Indeterminate but potentially significant decrease in insurance premium tax revenues beginning in FY 2001. Indeterminate increase in general fund revenues in FY 2000 due to one-time fees collected by the Maryland Insurance Administration (MIA). Potential increase in expenditures by MIA to collect and analyze data as required by the bill. 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.

Maryland Automobile Insurance Fund (MAIF): Significant decrease in MAIF premiums.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: The major provisions of the bill provide for the following:

- repeals provisions in the Insurance Article regarding primary coverage of motor vehicle insurance;
- requires each 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;
- requires that savings from the bill be promptly passed on to consumers; and
- establishes a Motor Vehicle Accident Compensation and Cost Savings Oversight Committee to review the annual report required of the Insurance Commissioner.

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, which cannot be reliably estimated at this time but is assumed to be significant, would probably not be felt until the second year after implementation.

The State collects a 2% premium tax on gross direct written premiums. For illustrative purposes only, based on MAIF's estimated premium decrease of 16.9% and annual private passenger auto insurance premiums written in the State of about \$2.1 billion, private passenger auto insurance premium tax revenues would decrease \$7.1 million in fiscal 2001, reflecting the bill's October 1, 1999 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 MIA. 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. MIA estimates that about 250 independent auto insurers would make rate and form filings.

State Expenditures: General fund expenditures could increase by an indeterminate amount if MIA needs to hire an outside consultant to assist in collecting and analyzing data as required by the bill.

There are about 7,900 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 1996 and 1997 and estimates for 1998 and 1999, 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): The rates for automobile insurance for MAIF, a nonbudgeted agency that functions as the insurer of last resort, 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 Transportation, Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Legislative Services

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