

Department of Legislative Services  
Maryland General Assembly

**FISCAL NOTE**

House Bill 142 (Delegate Pendergrass. *et al.*)

Economic Matters

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**Motor Vehicle Liability Insurance - Uninsured Motorist Coverage - Arbitration**

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This bill provides that in a dispute arising out of a claim under the uninsured motorist coverage of a motor vehicle liability policy, the insurer must offer for the dispute to be submitted to arbitration before an insurer hires an attorney to represent the uninsured motorist. When submitted to arbitration, the parties will select an arbitrator by mutual agreement or arbitration will be supplied by the American Arbitration Association. The costs of arbitration will be shared equally by the insurer and the insured, unless otherwise agreed by the parties.

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**Fiscal Summary**

**State Effect:** Minimal effect on premium tax revenues. Indeterminate increase in general fund revenues due to one-time fees collected by the Maryland Insurance Administration. Expenditures would not be affected.

**Maryland Automobile Insurance Fund (MAIF):** Indeterminate effect on claims costs and subrogation recoveries.

**Local Effect:** None.

**Small Business Effect:** None. The bill would not directly affect small businesses.

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**Fiscal Analysis**

**State Revenues:** If arbitration is used more often to settle disputes, rather than litigation, savings in attorney's fees could result. It is not known at this time to what extent any savings would be offset by reduced recoveries. The impact on insurance premium tax revenues, if any, is assumed to be minimal.

General fund revenues could increase by an indeterminate amount since auto insurance companies would be subject to \$100 rate and form filing fees 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.

**Maryland Automobile Insurance Fund (MAIF):** MAIF, an off-budget agency that provides auto insurance to those who are unable to obtain it in the private market, receives about 350 suits per year involving uninsured motorist coverage at a legal expense of \$2,000 per case. Since a policyholder making an uninsured motorist claim would most likely be represented by an attorney, even in arbitration, MAIF would likely hire an attorney, although some savings are expected. Further, MAIF would be required to pursue necessary legal action against the at-fault uninsured motorist to recover the subrogation amounts. According to MAIF, since the policyholder would have already received a settlement, the policyholder would be less likely to testify as part of the subrogation proceedings and so the percentage of subrogation collected would be reduced. MAIF estimates that savings in attorney's fees would be offset by additional costs for subrogation and reduced subrogation recoveries. Legislative Services advises that it is not known at this time to what extent any savings would be offset by additional costs and reduced recoveries.

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

**Fiscal Note History:** First Reader - February 3, 1998

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