

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 39 (Delegates Branch and C. Davis)

Economic Matters

**Automobile Liability Insurance Rates - Effect of Accident Occurring During
Inclement Weather**

This bill prohibits an insurer, for the purpose of determining whether to classify an insured in a classification that entails a higher premium, from automatically determining that an insured is more than 50% at fault in an accident that occurs when the insured is driving during inclement weather such as snow, sleet, or freezing rain.

In addition, the bill provides that an accident that occurs during inclement weather conditions is not chargeable against the insured if the insured is driving in a reasonable and prudent manner at an appropriate reduced speed. The bill specifies that an insured may use a police report or other objective evidence to prove that the insured was driving in a reasonable and prudent manner.

Fiscal Summary

State Effect: Indeterminate general fund increase from rate and form filings for FY 1999 only. Expenditures would not be affected.

Maryland Automobile Insurance Fund (MAIF): Increase in base premiums to recover lost surcharges and any increased expenses.

Local Effect: Potential minimal effect on counties and municipalities.

Small Business Effect: Potential minimal effect on small businesses.

Fiscal Analysis

State Revenues: General fund revenues could increase since auto insurance companies would be subject to rate and form filing fees. Each insurer that revises its rates and amends its insurance policy must submit the proposed change(s) to the Insurance Administration and pay a \$100 rate and form filing fee. 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.

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, paid 14,676 property damage claims in 1997. In an unknown percentage of those accidents that occurred during inclement weather, MAIF would be unable to determine fault and would not be able to surcharge the driver. For each surchargeable accident, MAIF surcharges the policyholder 24%, which can be in effect for the three years following the accident. To the extent that MAIF cannot surcharge the driver involved in the accident, the costs will be shifted to all drivers insured by MAIF in the form of higher premiums.

In addition, MAIF estimates that nine additional employees (1.5 for each of the six underwriting teams) would be required to review the circumstances of accidents applicants had while insured with other companies to see if the accident meets the inclement weather situation. Further, MAIF estimates another three employees (.5 for each team) would be needed to answer inquiries from other insurance companies. The total cost estimated for these 12 employees including salary, fringe benefits, and overhead is \$516,000. Legislative Services advises that it may be possible to perform the additional review of applications with fewer than 12 additional employees. It will depend on the total workload and the time required to perform each review.

MAIF would raise its base premiums in order to recover any moneys lost to surcharges and any increased costs. For illustrative purposes, the table below shows the effect of a 5.6% increase in each territory.

Territory	Premiums Before	Premiums After	Increase
Baltimore City	\$1,664	\$1,757	\$93
Baltimore Inner	\$1,341	\$1,416	\$75
Montgomery County Outer	\$752	\$794	\$42
Prince George's County Outer	\$798	\$843	\$45

Baltimore Outer	\$1,161	\$1,226	\$65
Montgomery County Inner	\$922	\$974	\$52
Prince George's County Inner	\$975	\$1,030	\$55
Lower Eastern Shore	\$579	\$611	\$32
Remainder	\$711	\$751	\$40

Local Expenditures: As a result of this bill, in an unknown percentage of inclement weather accidents, insurers would be unable to determine fault and thus would not be able to surcharge drivers involved in these accidents. As a result, the costs for these accidents would be shifted to all drivers, including those who do not have such accidents. Counties and municipalities that would otherwise have been surcharged would benefit. Other localities that purchase auto insurance could experience a minimal increase in premiums.

Small Business Effect: As a result of this bill, in an unknown percentage of inclement weather accidents, insurers would be unable to determine fault and thus would not be able to surcharge drivers involved in these accidents. As a result, the costs for these accidents would be shifted to all drivers, including those who do not have such accidents. Small businesses that would otherwise have been surcharged would benefit. Other small businesses that purchase commercial auto insurance could experience a minimal increase in premiums.

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

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