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By: **Delegates Dypski, Hammen, and Krysiak**  
Introduced and read first time: February 16, 2001  
Assigned to: Rules and Executive Nominations

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A BILL ENTITLED

1 AN ACT concerning

2                                   **Private Passenger Automobile Insurance - Rate Making Principles -**  
3                                   **Geographic Terms**

4 FOR the purpose of providing that if a certain insurer, for the purpose of establishing  
5 rates for private passenger automobile insurance, groups risks by risk  
6 consideration in classifications which are expressed in geographic terms, the  
7 rates will be deemed unfairly discriminatory under certain provisions of law if  
8 the rate charged in a geographic rating area exceeds by certain percentages the  
9 rate charge in any contiguous geographic rating area; providing that certain  
10 limitations do not apply to risk classifications used by an insurer that are not  
11 expressed in geographic terms; providing that rates charged to insureds in  
12 contiguous rating areas may exceed certain limitations under certain  
13 circumstances; prohibiting an insurer from using geographic rating territories  
14 which are smaller than certain areas; and generally relating to rate making  
15 principles in private passenger automobile insurance.

16 BY repealing and reenacting, without amendments,  
17 Article - Insurance  
18 Section 11-205(d) and (f) and 11-306(b)(1) and (e)  
19 Annotated Code of Maryland  
20 (1997 Volume and 2000 Supplement)

21 BY adding to  
22 Article - Insurance  
23 Section 11-216 and 11-319  
24 Annotated Code of Maryland  
25 (1997 Volume and 2000 Supplement)

26 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
27 MARYLAND, That the Laws of Maryland read as follows:

1 **Article - Insurance**

2 11-205.

3 (d) Rates may not be excessive, inadequate, or unfairly discriminatory.

4 (f) (1) Risks may be grouped by classifications for the establishment of rates  
5 and minimum premiums.

6 (2) Classification rates may be modified to produce rates for individual  
7 risks in accordance with rating plans that establish standards for measuring  
8 variations in hazards or expense provisions, or both.

9 (3) The standards may measure any difference among risks that are  
10 demonstrated objectively to the Commissioner to have had a direct and substantial  
11 effect on losses or expenses.

12 (4) Notwithstanding any other provision of this subsection, a rate may  
13 not be based wholly or partly on geographic area itself, as opposed to underlying risk  
14 considerations, even though expressed in geographic terms.

15 11-216.

16 (A) THIS SECTION APPLIES TO INSURERS THAT PROVIDE PRIVATE PASSENGER  
17 AUTOMOBILE INSURANCE POLICIES IN THE STATE.

18 (B) NOTWITHSTANDING ANY OTHER PROVISION OF THIS TITLE, IF AN  
19 INSURER SUBJECT TO THIS SECTION, FOR THE PURPOSE OF ESTABLISHING RATES  
20 FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE, GROUPS RISKS BY RISK  
21 CONSIDERATION IN CLASSIFICATIONS WHICH ARE EXPRESSED IN GEOGRAPHIC  
22 TERMS UNDER § 11-205(F) OF THIS SUBTITLE, THE RATES WILL BE DEEMED  
23 UNFAIRLY DISCRIMINATORY UNDER § 11-205(D) OF THIS SUBTITLE IF THE RATE  
24 CHARGED IN A GEOGRAPHIC RATING AREA EXCEEDS THE RATE CHARGED IN ANY  
25 CONTIGUOUS GEOGRAPHIC RATING AREA:

26 (1) BEGINNING OCTOBER 1, 2003, BY 30%;

27 (2) BEGINNING OCTOBER 1, 2004, BY 20%; AND

28 (3) BEGINNING OCTOBER 1, 2005, BY 10%.

29 (C) (1) THE LIMITATIONS UNDER SUBSECTION (B) OF THIS SECTION DO NOT  
30 APPLY TO RISK CLASSIFICATIONS USED BY AN INSURER THAT ARE NOT EXPRESSED  
31 IN GEOGRAPHIC TERMS.

32 (2) RATES CHARGED TO INSUREDS IN CONTIGUOUS GEOGRAPHIC  
33 RATING AREAS MAY EXCEED THE LIMITATIONS UNDER SUBSECTION (B) OF THIS  
34 SECTION PROVIDED THAT ANY RATE IN EXCESS OF THE LIMITATIONS IS  
35 ATTRIBUTABLE TO THOSE CLASSIFICATIONS WHICH ARE NOT EXPRESSED IN  
36 GEOGRAPHIC TERMS.

1 (D) AN INSURER MAY NOT USE GEOGRAPHIC RATING TERRITORIES WHICH  
2 ARE SMALLER THAN ZIP CODE AREAS ESTABLISHED BY THE UNITED STATES POSTAL  
3 SERVICE.

4 11-306.

5 (b) (1) Rates may not be:

6 (i) excessive or inadequate, as defined under this subtitle; or

7 (ii) unfairly discriminatory.

8 (e) (1) Risks may be grouped by classifications for the establishment of rates  
9 and minimum premiums.

10 (2) Classification rates may be modified to produce rates for individual  
11 risks in accordance with rating plans that establish standards for measuring  
12 variations in hazards or expense provisions, or both.

13 (3) The standards may measure any difference among risks that have  
14 had a direct and substantial effect on losses or expenses.

15 (4) Notwithstanding any other provision of this subsection, a rate may  
16 not be based wholly or partly on geographic area itself, as opposed to underlying risk  
17 considerations, even though expressed in geographic terms.

18 11-319.

19 (A) THIS SECTION APPLIES TO INSURERS THAT PROVIDE PRIVATE PASSENGER  
20 AUTOMOBILE INSURANCE POLICIES IN THE STATE.

21 (B) NOTWITHSTANDING ANY OTHER PROVISION OF THIS TITLE, IF AN  
22 INSURER SUBJECT TO THIS SECTION, FOR THE PURPOSE OF ESTABLISHING RATES  
23 FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE, GROUPS RISKS BY RISK  
24 CONSIDERATION IN CLASSIFICATIONS WHICH ARE EXPRESSED IN GEOGRAPHIC  
25 TERMS UNDER § 11-306(E) OF THIS SUBTITLE, THE RATES WILL BE DEEMED  
26 UNFAIRLY DISCRIMINATORY UNDER § 11-306(B) OF THIS SUBTITLE IF THE RATE  
27 CHARGED IN A GEOGRAPHIC RATING AREA EXCEEDS THE RATE CHARGED IN ANY  
28 CONTIGUOUS GEOGRAPHIC RATING AREA:

29 (1) BEGINNING OCTOBER 1, 2003, BY 30%;

30 (2) BEGINNING OCTOBER 1, 2004, BY 20%; AND

31 (3) BEGINNING OCTOBER 1, 2005, BY 10%.

32 (C) (1) THE LIMITATIONS UNDER SUBSECTION (B) OF THIS SECTION DO NOT  
33 APPLY TO RISK CLASSIFICATIONS USED BY AN INSURER THAT ARE NOT EXPRESSED  
34 IN GEOGRAPHIC TERMS.

1           (2)       RATES CHARGED TO INSUREDS IN CONTIGUOUS GEOGRAPHIC  
2 RATING AREAS MAY EXCEED THE LIMITATIONS UNDER SUBSECTION (B) OF THIS  
3 SECTION PROVIDED THAT ANY RATE IN EXCESS OF THE LIMITATIONS IS  
4 ATTRIBUTABLE TO THOSE CLASSIFICATIONS WHICH ARE NOT EXPRESSED IN  
5 GEOGRAPHIC TERMS.

6       (D)       AN INSURER MAY NOT USE GEOGRAPHIC RATING TERRITORIES WHICH  
7 ARE SMALLER THAN ZIP CODE AREAS ESTABLISHED BY THE UNITED STATES POSTAL  
8 SERVICE.

9       SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
10 October 1, 2001.