

Department of Legislative Services  
Maryland General Assembly  
2001 Session

FISCAL NOTE

House Bill 1292  
Economic Matters

(Delegate Dypski, *et al.*)

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**Motor Vehicle Liability Insurance - Rate Making Principles - Geographic Terms**

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This bill prohibits private passenger motor vehicle liability insurance policies from: (1) expressing any underlying risk considerations in geographic terms; or (2) using or employing any rating territories smaller than the entire State in the classification of any rate.

The bill may be construed only prospectively and may not be interpreted to have any effect or application to any private passenger motor vehicle liability insurance policies issued or renewed before October 1, 2001.

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**Fiscal Summary**

**State Effect:** Potential \$12,500 special fund revenue increase in FY 2002 from rate and form filing fees collected by the Maryland Insurance Administration (MIA). Any workload increase could be handled with MIA's existing resources.

**Maryland Automobile Insurance Fund (MAIF):** Minimal. It is expected that MAIF's premium revenues would remain constant. MAIF would lower premium rates in some geographic areas and raise rates in others.

**Local Effect:** None.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** Competitively set insurance rates, including those applicable to private passenger motor vehicles, may not be excessive, inadequate, or unfairly discriminatory. A determination of whether a rate meets the required standard includes a consideration of all relevant factors within and outside the State. For personal lines property and casualty insurances, including private passenger motor vehicle liability insurance, the Maryland Insurance Commissioner may hold that a statewide rate or a rate in a particular jurisdiction or geographic territory is excessive without determining whether a reasonable degree of competition exists if the Commissioner determines that the rate is: (1) unreasonably high for the insurance provided; and (2) not actuarially justified based on commonly accepted actuarial principles.

Noncompetitively set insurance rates, including those applicable to private passenger motor vehicles, must be approved by the Commissioner. Consideration is given to all relevant factors within and outside the State in determining the reasonableness of a rate. Rates may not be excessive, inadequate, or unfairly discriminatory.

For competitively and noncompetitively set rates, the following rules also apply: (1) risks may be grouped by classifications to establish rates and minimum premiums; (2) classification rates may be modified to produce rates for individual risks in accordance with rating plans that establish standards for measuring variations in hazards or expense provisions, or both; (3) the standards may measure any difference among risks that have had a direct and substantial effect on losses or expenses; and (4) a rate may not be based wholly or partly on a geographic area itself, as opposed to underlying risk considerations, even though expressed in geographic terms.

**State Revenues:** MIA estimates that approximately 100 private passenger automobile insurers and a few rating bureaus would file revised rates and rules and pay the \$125 filing fee in order to adjust their current geographic rating territories to a statewide rating system. Total premium values paid to automobile insurers from these changes should remain constant as increases in some areas are offset by decreases in others; thus, insurance premium tax revenues should not be materially affected.

**MAIF:** MAIF currently uses geographic areas in setting premium rates to account for risk based on the frequency of claims by geographic area. Areas with higher accident risks have higher premium rates. MAIF would require the same amount of total premium to pay its losses; therefore, a new statewide average premium for private passenger motor vehicle liability insurance would be required. MAIF estimates that such an average premium could be approximately \$1,020 for the mandatory minimum liability coverages

for bodily injury, property damage, personal injury protection, and uninsured motorist coverage.

The chart below shows the effect of changing MAIF policy rates to a statewide premium, in dollar and percentage changes. The figures are for calendar 1999, the latest year for which complete data are available.

**Current MAIF Liability Average Premiums  
Compared to Statewide MAIF Premium**

<u>Territory</u>	<u>1999 Average Premium</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Baltimore City	\$1,488	\$(468)	-31.5%
Inner Baltimore Metro Area	1,473	(453)	-30.8
Outer Baltimore Metro Area	1,383	(363)	-26.2
Eastern Shore	731	289	16.0
Inner Montgomery Co.	1,045	(25)	-2.4
Outer Montgomery Co.	920	100	10.9
Inner Prince George's Co.	1,003	17	1.7
Outer Prince George's Co.	913	107	11.7
Remainder of the State	879	\$141	16.0%
<b>Statewide Premium</b>	<b>\$1,020</b>	<b>N/A</b>	<b>N/A</b>

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader – March 6, 2001  
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