HB 1319

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1319 (Delegate Dypski, *et al.*)
Economic Matters

Private Passenger Automobile Insurance - Rate Making Principles - Geographic Terms

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This bill provides that if a private passenger automobile insurer groups risks by risk consideration in classifications expressed in geographic terms, the rates will be deemed unfairly discriminatory if the rate charged in a geographic rating area exceeds the rate charged in any contiguous geographic rating area by: (1) 30% beginning October 1, 2003; (2) 20% beginning October 1, 2004; and (3) 10% beginning October 1, 2005. Rates charged to insureds in contiguous geographic rating areas may exceed the limits, provided that any rate in excess of the limits is attributable to classifications not expressed in geographic terms. The bill prohibits an insurer from using geographic rating territories that are smaller than postal zip codes.

Fiscal Summary

State Effect: Special fund revenue increase in FY 2003, FY 2004, and FY 2005 from rate and form filing fees collected by the Maryland Insurance Administration (MIA). Any workload increase could be handled with 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.

Analysis

Current Law: Competitively set insurance rates, including those applicable to private passenger automobiles, 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 automobile 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 (prior approval) insurance rates, including those applicable to private passenger automobiles, 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 set and prior approval 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 geographic area itself, as opposed to underlying risk considerations, even though expressed in geographic terms.

State Revenues: MIA estimates that approximately 100 independent private passenger automobile insurers and a few rating bureaus would file revised rates and rules because of the bill beginning in fiscal 2003 and continuing through fiscal 2005. Each rate and each rule filed is subject to a $125 fee. The number of filings made in each year cannot be accurately estimated. 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 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, rates would increase in some areas and would decrease in others beginning in 2003.

In 2003, rates would decrease from 14% to 47% in Baltimore City and the Baltimore Metropolitan Area. Rates in the remainder of the State would increase by approximately 10% in 2003. In 2004, rates in Baltimore City and the Baltimore Metropolitan Area would decrease by approximately 4%, and rates in the remainder of the State would increase by approximately 4%. In 2005, rates would decrease by approximately 4.5% in Baltimore City, the Baltimore Metropolitan Area, and inner Montgomery and Prince George's counties; rates in the remainder of the State would increase from 1.4% to 14%.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

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