

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE

Revised

House Bill 521

(Delegate Krysiak, *et al.*)

Economic Matters

Finance

Property and Casualty Insurance - Use of Credit History

This bill prohibits the use of an individual's credit history in underwriting and rating homeowner's insurance. The bill allows the use of credit for motor vehicle insurance rating under specified circumstances.

The bill applies to personal lines property and casualty insurance policies and contracts issued, delivered, or renewed on or after October 1, 2002.

Fiscal Summary

State Effect: Special fund increase in FY 2003 and FY 2005 from filings with the Maryland Insurance Administration (MIA). Enforcement could be handled with MIA's existing resources.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: For homeowner's insurance, the bill prohibits an insurer from refusing to underwrite, canceling, refusing to renew, rating a risk, or requiring a particular payment plan based on the credit history of an applicant or insured. For private passenger motor vehicle insurance, the bill prohibits an insurer from refusing to underwrite, canceling, refusing to renew, increasing the renewal premium, or requiring a particular payment plan based on the credit history of an applicant or insured.

However, a private passenger motor vehicle insurer may rate a new policy based on the credit history of the applicant under these restrictions: (1) the insurer may not use a factor on the credit history that occurred more than five years prior to the issuance of the new policy; (2) the insurer must advise the applicant that credit history is used to rate a new policy and provide a premium quote identifying the portion of the premium affected by the applicant's credit history; (3) the insurer may not consider a lack of credit history ("no hit") in rating the policy; and (4) if an applicant is adversely impacted by the use of credit history, the insurer must review the credit history of the applicant every two years, or upon the request of the insured, and must adjust the premium to reflect any improvement.

An insurer that rates a new policy based on the credit history of the applicant under the bill may provide a premium discount of up to 40% or impose a premium surcharge of up to 40%.

The bill requires the Insurance Commissioner to conduct a study on whether the use of credit scoring in the State has an adverse impact on any demographic group defined by race or socio-economic status. The commissioner must also study the impact of premium rates for policies issued by the Maryland Automobile Insurance Fund (MAIF) on the insurance market. The bill requires the commissioner to report the results of these studies to the Governor and General Assembly by January 1, 2004.

The bill's provisions relating to the premium discount, premium surcharge, and study by the Commissioner terminate September 30, 2004.

Current Law: Under Chapter 576 of 1998, an insurer may not refuse to underwrite a private passenger motor vehicle insurance risk solely: (1) because the applicant or named insured previously obtained insurance coverage from any authorized insurer or the Maryland Automobile Insurance Fund; or (2) because of the credit history of the applicant or named insured.

State Revenues: Homeowners insurers and private passenger automobile insurers that do not currently comply with the bill's requirements would be required to file new rates and accompanying forms with MIA in fiscal 2003. Automobile insurers that charge a premium surcharge or grant a premium discount under the bill would be required to file new rates/rules and forms in fiscal 2005. Each rate/rule and each accompanying form filed would be subject to the \$125 rate and rule filing fee charged by MIA. The number of insurers that would file rates/rules and accompanying forms because of the bill cannot be accurately estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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