

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 750 (Delegate Love)
Economic Matters

**Insurance - Maryland Automobile Insurance Fund - Policies Issued by Fund -
Cancellation**

This bill requires any unearned premium that is due to an insured on cancellation of an automobile insurance policy issued by the Maryland Automobile Insurance Fund (MAIF) to be calculated on a pro rata basis. The bill limits, to \$75, any minimum premium, expense constant, or similar charge that MAIF imposes upon cancellation of a policy.

Fiscal Summary

State Effect: Potential increase in special fund revenue of \$125 to the Maryland Insurance Administration if MAIF is required to make a filing because of the bill. Expenditures would not be affected.

MAIF: Decrease in nonrefundable fee revenues, offset by an increase in premium revenues.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: MAIF is subject to the provision generally applicable to a cancellation of a policy purchased with a premium finance agreement. When an insurance contract is canceled, the insurer (including MAIF) must return any gross unearned premium that is due under the insurance contract, computed pro rata, to the premium finance company for

the account of the insured within 45 days after: (1) receiving a notice of cancellation from the premium finance company or the insured; (2) the date the insurer cancels the contract; or (3) completion of any payroll audit necessary to determine the amount of any premium earned while the insurance contract was in force. Such an audit must be performed within 45 days after the insurer receives the notice of cancellation.

The insurer (including MAIF) may exclude from gross earned premiums that must be returned any expense constant, administrative fee, or nonrefundable charge filed with and approved by the Maryland Insurance Commissioner.

MAIF: MAIF currently charges nonrefundable fees of \$59 for liability insurance and \$70 for physical damage (\$129 total) to cover its processing costs associated with each policy. MAIF advises that 95% of its policies are obtained through premium financing and that 47% of its policies are canceled during the 12-month policy term. Assuming that MAIF's revenues from the nonrefundable fees would decrease by approximately \$1.2 million annually, MAIF insurance policies would increase by an average of \$14 to cover the loss of income from processing fees.

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 - February 28, 2003
mam/jr

Analysis by: Ryan Wilson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510