

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 174
Finance

(Senator Jacobs, *et al.*)

Property and Casualty Insurance - Use of Credit History

This bill repeals the prohibitions on the use of a credit history in rating homeowner's insurance policies and on existing private passenger motor vehicle insurance policies.

The bill applies to all personal lines property and casualty insurance policies and contracts issued, delivered, or renewed on or after October 1, 2003.

Fiscal Summary

State Effect: Special fund revenues could increase by \$12,500 in FY 2004 from rate filing fees for rates filed with the Maryland Insurance Administration (MIA) under the bill. Potential minimal general fund increase from premium tax revenues to the extent insurers raise rates. Expenditures would not be affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill authorizes an insurer, with the permission of the insured or applicant, to use the credit history of an insured or an applicant to rate a homeowner's insurance policy. The bill authorizes an insurer, with the permission of the insured, to use the credit history of an insured to rate an existing policy of private passenger motor vehicle insurance. Under the bill, rating includes: (1) providing or removing a discount; (2) assigning the insured or applicant to a rating tier; or (3) placing an insured or applicant with an affiliated company. The bill subjects ratings of a homeowner's

insurance policy or an existing motor vehicle insurance policy to the same restrictions currently applicable to ratings for new private passenger motor vehicle insurance. The bill authorizes premium surcharges and discounts for existing private passenger motor vehicle insurance on the same terms (up to 40%) as are applicable to new policies.

Current Law: For homeowner's insurance, an insurer may not refuse to underwrite, cancel, refuse to renew, rate a risk, or require a particular payment plan based on the credit history of an applicant or insured.

For private passenger motor vehicle insurance, an insurer may not refuse to underwrite, cancel, refuse to renew, increase the renewal premium, or require 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:

- 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;
- 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;
- the insurer may not consider a lack of credit history in rating the policy; and
- 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 may provide an actuarially justified premium discount of up to 40% or impose an actuarially justified premium surcharge of up to 40%. This provision terminates September 30, 2004.

Background: Chapter 580 of 2002 established the restrictions on the use of a credit history for homeowner's insurance and for private passenger motor vehicle insurance.

State Fiscal Effect: Insurers that wish to use a credit history in determining rates would be required to file the rates under the bill. MIA estimates that approximately 50 insurers would file one new rate for homeowner's insurance and one new rate for motor vehicle insurance. It is assumed that the bill would affect the nature of the complaints that MIA receives about the use of credit history in determining rates and would not materially increase the overall number of complaints; therefore, MIA should be able to handle any change in the nature of these complaints with existing budgeted resources. MIA,

however, advises that the bill would require one additional complaints analyst at a total cost in fiscal 2004 of \$40,900.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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