

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

House Bill 286 (Delegates Kach and Love)  
Economic Matters

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**Insurance - Premium Financing - Return of Unearned Premiums on Cancellation  
of Insurance Contract**

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This bill limits, to a maximum of \$50 per policy, the administrative fee that an insurer may exclude from gross unearned premiums that must be returned upon cancellation of an insurance contract. The bill also repeals the provision that authorizes an insurer to exclude an expense constant or nonrefundable charge from the returnable gross unearned premiums.

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**Fiscal Summary**

**State Effect:** Special fund revenues for the Maryland Insurance Administration (MIA) would increase by approximately \$125,000 from filing fees in FY 2004. Expenditures would not be affected.

**Maryland Automobile Insurance Fund (MAIF):** Decrease in nonrefundable fee revenues, offset by an increase in premium revenues.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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**Analysis**

**Current Law:** When an insurance contract is canceled, the insurer must return any gross unearned premiums that are 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 that the insurer cancels the contract; or (3) completion of any payroll audit necessary to determine the amount of 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 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.

**State Revenues:** MIA advises that approximately 1,000 independent insurers and rating bureaus would file revised forms in fiscal 2004 because of the bill. Each form filed is subject to the \$125 form filing fee.

**MAIF:** MAIF currently charges nonrefundable fees of \$59 for liability insurance and \$70 for physical damage 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 \$2.3 million annually, MAIF insurance policies would increase by an average of \$26 to cover the loss of income from processing fees.

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### **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 12, 2003  
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