SB 691

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 691 (Senator Gladden)
Finance

Automobile Insurance - Alternative Rating Plan Pilot Program

This bill authorizes an automobile insurer to offer each person purchasing automobile insurance coverage for losses caused by collision or other driving-related accidents a choice between a mile-based rating plan and time-based rating plan. The bill also establishes a tax credit against the insurance premium tax for vehicles insured under a mile-based rating plan.

The bill terminates September 30, 2008.

Fiscal Summary

State Effect: General fund revenues could decrease by up to $1 million between FY 2007 and FY 2009 from tax credits claimed under the bill. Special fund revenues would increase in FY 2005 from rates filed under the bill. Assuming the number of credits claimed under the bill is small, expenditures would not be affected.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Mile-based Rating Plan

An automobile insurer must require a person that purchases coverage to use the same rating plan for all vehicles covered under the person's policy.

Each insurer that offers a mile-based rating plan must file annually with the Maryland Insurance Commissioner, for the Commissioner's approval, a schedule of its premium rates for the automobile insurance based on its mile-based and time-based rating plans. If after analyzing the premium rates the Commissioner determines that the rates filed are excessive in comparison to the premium rates charged for similar coverage under an insurer's time-based rating plan, the Commissioner must reject the rates after notice to the insurer and an opportunity for a hearing. The Commissioner must notify an insurer that its rates were rejected within 60 days after the date on which the rates were filed. An insurer may not use rejected rates. Mile-based premium rates are exempt from other rate regulation provisions.

The provisions authorizing mile-based and time-based plans apply to all automobile insurance policies and contracts issued, delivered, or renewed on or after October 1, 2004.

Tax Credit

An insurer may claim a credit against the premium tax for providing motor vehicle insurance policies that are at least 70% based on a mile-based rating plan. The credit is $100 for each vehicle insured under a mile-based rating plan during a taxable year, up to $300 for each policy. The total amount of the credit in a taxable year may not exceed the insurer's tax liability and may not be carried forward to another taxable year. The credit may not be claimed on a policy for which a credit was allowed in a previous taxable year.

In order to claim the credit, the insurer must obtain a verified statement from the policyholder stating that: (1) the policy covers all vehicles used at the policyholder's household; and (2) the vehicles on the policy are owned, leased, or regularly operated by the policyholder or an individual who is legally related to the policyholder or regularly shares vehicles with the policyholder.

The total amount of the tax credit that may be claimed by all insurers over all taxable years is limited to $1 million. The tax credit applies to taxable years beginning after December 31, 2005.

Study by Commissioner

The bill requires the Commissioner to study the use by insurers of mile-based rating plans and time-based rating plans, including the number of insurers writing automobile insurance based on mile-based plans and the effect of mile-based plans on premium rates. The Commissioner must report on the results of the study by January 1, 2008.

Current Law: Generally, automobile insurance rates may not be excessive, inadequate, or unfairly discriminatory. An insurer may establish its own rating system based on these principles. Rates must be filed with the Commissioner before they may be used. The

Commissioner may investigate and determine whether rates are excessive, inadequate, or unfairly discriminatory.

Generally, for private passenger motor vehicle liability insurance or a binder of motor vehicle liability insurance in effect for at least 45 days, an insurer other than the Maryland Automobile Insurance Fund may not: (1) cancel or fail to renew the policy or binder for a reason other than nonpayment of premium; (2) increase a premium for any coverage on the policy; or (3) reduce coverage under the policy. At least 45 days before the proposed effective date of one of these actions, an insurer must send written notice of its proposed action to the insured.

The insurance premium tax applicable to automobile insurers is 2% of the gross written premium, with specified allowable exceptions. By regulation, the tax is generally paid in quarterly installments on the estimated amount due for a given year. Insurance premium taxpayers must file an annual report by March 15 following the tax year for which they are filing. The report must contain information about the amount of the taxpayer's gross written premium and any tax credits claimed. The report must be accompanied by a payment for the final tax due or include information on any overpayment made through the estimated quarterly payments.

Background: In the United Kingdom, Northwich Union has begun a pilot program to study a distance-based rating model for automobile insurance. Under that program, global position satellite technology is used to monitor the distance an automobile has been driven. This information would be used to create a distance-based rating model. One insurer conducted a pilot test for a mile-based rating model in Texas. Oregon recently enacted a law similar to the tax credit provisions of this bill.

State Revenues: General fund revenues would decrease to the extent tax credits are claimed under the bill, up to the bill's $1 million limit. The actual cost of the tax credit under the bill cannot be reliably estimated and depends on the number of insurers that would offer mile-based rating plans, how many of these policies would be issued, and how many vehicles would be insured under these policies. To date, no insurer in the State, or nationally, offers a mile-based rating plan for automobile insurance. Because the tax credit is available in tax years beginning after December 31, 2005 and the bill terminates September 30, 2008, general fund revenues could decrease by up to $1 million between fiscal 2007 and fiscal 2009 assuming the credit could be claimed for the period beginning January 1, 2008 and ending September 30, 2008.

It is unclear what effect the bill would have on automobile insurance premium rates generally. Premium tax revenues would decrease or increase proportionally with premium rates.

Each mileage-based rate filed with the Maryland Insurance Administration (MIA) would be subject to the rate filing fee. Special fund revenues would increase in fiscal 2005 by

$125 for each rate filed. The number of rates that would be filed cannot be accurately estimated.

State Expenditures: Because the number of insurers that would claim a credit under the bill is assumed to be small, MIA could handle any additional workload with existing budgeted resources. If, however, a large number of credits were claimed under the bill, MIA would need one contractual analyst to audit premium tax receipts in fiscal 2007 through 2009, at a cost of approximately $50,000 in each of those fiscal years.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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