

**Department of Legislative Services**

Maryland General Assembly

2004 Session

**FISCAL AND POLICY NOTE**

**Revised**

House Bill 504 (Chairman, Economic Matters Committee)  
(By Request – Departmental – Insurance Administration, Maryland)  
Economic Matters Finance

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**Private Passenger Motor Vehicle Insurance - Use of Credit History - Repeal of Sunset**

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This departmental bill repeals the September 30, 2004 sunset applicable to the 40% limit on the discounts and surcharges that an insurer may use in rating a new private passenger motor vehicle insurance policy based on the credit history of the applicant.

The bill requires the Maryland Insurance Administration (MIA) to report to specified committees of the General Assembly by December 1, 2004 on the status and findings of the study in which Maryland has joined with 14 other states on whether credit scoring has a disparate effect on minority and low-income individuals.

The bill takes effect July 1, 2004.

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**Fiscal Summary**

**State Effect:** Repealing the sunset would not materially affect the finances or operations of MIA. Allowing the provision to sunset could increase the workload of MIA's complaint division.

**Local Effect:** None.

**Small Business Effect:** MIA has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Current Law:** For private passenger motor vehicle insurance, an insurer may not: (1) refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based on the credit history of the insured or applicant; or (2) require a particular payment plan based on the credit history of the insured or applicant.

An insurer may, subject to certain limitations, use an applicant's credit history to rate a new private passenger motor vehicle insurance policy. When an insurer does rate a new private passenger motor vehicle insurance policy based on an applicant's credit history, an insurer may, if actuarially justified, provide a discount of up to 40% or impose a surcharge of up to 40%. The provision that limits the amount of a discount or surcharge sunsets September 30, 2004.

**Background:** Chapter 580 of 2002, which contained the limits on the use of a credit history in insurance underwriting, required MIA to study and report on whether the use of credit scoring has an adverse effect on any demographic group defined by race or socio-economic status. Although the report has not yet been released, MIA advises that, prior to enactment of Chapter 580, it received numerous complaints from individuals regarding increases in their insurance rates, with some premiums increasing by 100%.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** Though not identified as a cross file, SB 101 is almost identical.

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

**Fiscal Note History:** First Reader - February 6, 2004  
lc/ljm Revised - House Third Reader - April 12, 2004

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