Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 245 (Delegate Holmes)
Economic Matters

Homeowner's Insurance - Underwriting, Cancellation, and Refusal to Renew

This bill prohibits an insurer, for homeowner's insurance, from refusing to underwrite a risk or canceling or refusing to renew coverage based on: (1) homeowner's insurance claims made by a previous owner of the property to be insured or that is insured by the insurer; or (2) an inquiry by a policy holder or insured that does not result in the payment of a claim.

Fiscal Summary

State Effect: Special fund revenues could increase minimally in FY 2005 from rate and rule filing fees. Potential general fund increase from premium tax revenues. Any increase in workload from filings under the bill or complaints because of the bill could be handled with the existing resources of the Maryland Insurance Administration (MIA).

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Generally, an insurer must use standards that are reasonably related to the insurer's economic and business purposes in deciding whether to cancel or refuse to underwrite or renew a particular insurance risk or class of risk. For homeowner's insurance, an insurer may not, based on the credit history of an applicant or insured: (1) refuse to underwrite, cancel, or refuse to renew a risk; (2) rate a risk; or (3) require a particular payment plan.

If an insurer considers claims history in deciding whether to cancel or refuse to renew coverage, the insurer must disclose the practice to an insured at the inception of the policy and at each renewal.

Background: Among the factors insurers use to decide whether to refuse to underwrite a risk, cancel, or refuse to renew coverage is information contained in the *Comprehensive Loss Underwriting Exchange (C.L.U.E.) Report*. A *C.L.U.E. Report* includes information such as the insured's name and birth date, the insured's current and previous addresses, the claims history of the individual or the property, dates of claims, policy and claims numbers, and the property address. Increasingly, insurers use information contained in a *C.L.U.E. Report* for a previous owner of a property to decide whether to issue a policy for the property.

State Revenues: Insurers that rely on prior-owner claims on a property or on inquiries without claims payments would be required to revise their underwriting guidelines to comply with the bill. Some insurers may raise their rates or revise rating factors for homeowner's insurance to compensate for their inability to decline or to terminate risks based on the factors covered under the bill. Insurers that raise their rates or revise rating factors would be required to submit revised rates and/or rules and pay the $125 filing fee. Revenues for the Insurance Regulation Fund would increase in fiscal 2005 by $125 for each rate or rule filed. The amount of the increase is unknown but is assumed to be minimal. General fund revenues from the premium tax administered by MIA would increase to the extent insurers increase rates because of the bill. Any such increase cannot be accurately estimated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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