

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 1326

(Delegate Doory, *et al.*)

Economic Matters

Homeowner's Insurance Premiums - Escrow - Substantial Property Damage

This bill authorizes a consumer, under specified conditions, to ask the Maryland Insurance Commissioner to review a homeowner's insurance premium amount.

The bill may not be construed to impair or affect the obligation of any insurance contract.

Fiscal Summary

State Effect: The bill's requirements could be handled with the existing budgeted resources of the Maryland Insurance Administration.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A consumer may request that the Commissioner review the amount of premium that the consumer has paid or will pay for residential real property under a homeowner's insurance policy that is: (1) required as a condition of the loan agreement for the property; and (2) applicable from the date of an event that caused substantial property damage.

The Commissioner must determine, based on the property's condition, whether the premium may need to be decreased to reflect the property's lost value. In making the determination, the Commissioner must consider whether any claim for substantial

property damage filed under a homeowner's insurance policy or the National Flood Insurance Program has been denied or approved for an amount that is less than the amount required to return the property to its prior condition.

If a claim for substantial property damage filed under a homeowner's insurance policy or the National Flood Insurance Program has not been resolved within 45 days after the claim is filed, the Commissioner must order the insurer that issued or delivered the homeowner's insurance policy to transfer to a separate escrow account the portion of the premium applicable to the loss value of the property. The insurer must notify the Commissioner when one of these claims has been resolved, and the Commissioner must determine whether the premium may need to be decreased to reflect the property's lost value.

Within 10 days after the Commissioner's determination, the Commissioner must notify the insurer whether the insurer is required to decrease the premium.

The bill requires the Commissioner to adopt regulations to carry out the unfair claim settlement provisions.

Under the bill, substantial property damage is a condition of residential real property that: (1) constitutes a fire hazard or a serious and substantial threat to the life, health, or safety of occupants; (2) reduces the assessed value of the property by 50%; and (3) prevents occupants from living in the property.

The bill applies to residential real property that: (1) is insured under a homeowner's insurance policy that a credit grantor requires as a condition of the loan; and (2) has substantial property damage due to an event for which the Governor has declared a state of emergency and that involved direct flood and flood-related damages.

Current Law: It is an unfair claim settlement practice for an insurer to: (1) misrepresent pertinent fact or policy provisions relating to a claim or coverage at issue; (2) refuse to pay a claim for an arbitrary or capricious reason based on all available information; (3) attempt to settle a claim based on an application that is altered without notice to, or the knowledge and consent of, the insured; (4) fail to include with each claim paid a statement of the coverage under which payment is being made; (5) fail to settle a claim promptly whenever liability is reasonably clear under one part of a policy, in order to influence settlements under other parts of the policy; and (6) fail to provide promptly on request a reasonable explanation of the basis for a denial of a claim. It is also an unfair claim settlement practice for an insurer, when committed with the frequency to indicate a general business practice, to attempt to settle a claim for less than the amount

to which a reasonable person would expect to be entitled after studying written or printed advertising material accompanying, or made part of, an application.

Additional Information

Prior Introductions: None.

Cross File: SB 805 (Senator Klausmeier, *et al.*) – Finance.

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

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ncs/jr

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