HB 999

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 999 (Delegate Menes, *et al.*)

Economic Matters Finance

Homeowner's Insurance - Premium Increases - Notice

This bill establishes, for homeowner's insurance policies, notice and complaint procedures for premium increases, reductions in coverage, policy cancellations, and failures to renew policies similar to those applicable to private passenger motor vehicle liability insurance policies.

Fiscal Summary

State Effect: Special fund expenditures for the Maryland Insurance Administration (MIA) could increase by $42,000 in FY 2005, reflecting the bill's October 1, 2004 effective date. Out-year projections reflect annualization and inflation. Special fund revenues would increase in FY 2005 from forms filed under the bill. The number of filings cannot be accurately estimated.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	-	$0	$0	$0	$0
SF Expenditure	42,000	50,600	53,600	56,900	60,400
Net Effect	($42,000)	($50,600)	($53,600)	($56,900)	($60,400)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: At least 45 days prior to the policy's expiration, an insurer that intends to take an action regulated under the bill must send written notification of its proposed action to the insured: (1) by certified mail for a notice of cancellation or nonrenewal; and (2) by certificate of mailing for all other notices required under the bill.

The bill specifies the content of the required notice, including specific content for premium increases, reductions in coverage, and failures to renew policies. For a premium increase, the notice must state: (1) the amount of the increase in comparison to the previous year's premium; (2) the reason for the increase; and (3) the telephone number of the insurer's representatives who handle consumer inquiries or complaints. For a reduction in coverage, the notice must state the type of coverage reduced and the extent of the reduction. For nonrenewal or cancellation of a policy, the notice must state the reasons for the nonrenewal or cancellation and the telephone number of the insurer's representatives who handle consumer inquiries or complaints.

The bill requires an insurer to send, by certificate of mailing, a written notice of intention to cancel a policy for nonpayment of premium at least 10 days before the proposed cancellation date.

An insured may protest a proposed action by an insurer that is regulated by the bill other than a cancellation for nonpayment of premium by signing two of the three copies received and sending the signed copies to the Maryland Insurance Commissioner within 30 days after the mailing date of the notice.

Except for a premium increase of 15% or less for the entire policy, the insurer must maintain the same coverage and premium that were in effect on the day the notice of the proposed action was sent to the insured until a final determination is made, subject to the payment of any authorized premium due or becoming due before the determination. For a premium increase, a dismissal of the protest of disallowance of the premium increase is deemed to be a final determination 20 days after the mailing date of the Commissioner's notice of action.

The Commissioner must notify the insurer of the protest. The Commissioner must then determine whether the protest has merit and either dismiss the protest or disallow the insurer's proposed action. Except in the case of a premium increase of 15% or more for the entire policy, the bill provides for a hearing by the Commissioner on the request of an aggrieved party. The bill provides procedures for the hearing and any orders that the Commissioner may issue following the hearing.

If the Commissioner does not allow a premium increase of 15% or less for the entire policy, the insurer must: (1) return to the insured all disallowed premium received; and (2) pay interest to the insured on the disallowed premium at 10% per annum from the date the disallowed premium was received to the date it was returned.

A premium increase as part of a general premium increase that does not result from a reclassification of the insured, a reduction as part of a general reduction in coverage, and a failure to renew a policy that takes place under a plan of withdrawal are exempt from the bill's notice provisions.

Current Law: Generally, when an insurer intends to cancel or decline to renew an insurance policy, the insurer must cause to be sent to the insured, by certificate of mailing, a written notice at least 45 days before the proposed cancellation or expiration of the policy. The insurer must also inform the insured of the possible right to replace the insurance under the Maryland Property Insurance Availability Act or through another plan for which the insured may be eligible. An insurer must send, by certificate of mailing, a written notice of intention to cancel a policy for nonpayment of premium at least 10 days before the proposed cancellation date. These requirements do not apply to policies of life insurance, health insurance, private passenger motor vehicle liability insurance, or surety insurance.

For insurance other than life insurance, health insurance, motor vehicle liability insurance, or surety insurance, whenever an insurer cancels or refuses to renew a policy, the insurer must provide to the applicant a statement of the actual reason for the cancellation or refusal to renew if the authorized premium has been tendered or paid.

Generally, whenever an insurer intends to increase a premium for a particular policy by 20% or more, the insurer must notify the insured and insurance producer of the increase. The notices must be sent by first-class mail at least 45 days before the effective date of the proposed increase. These provisions do not apply to life insurance, health insurance, private passenger motor vehicle liability insurance, surety insurance, insurance written or issued by the Maryland Automobile Insurance Fund, or an insurer that satisfies the Commissioner that it cannot reasonably comply with the notice requirement in connection with certain risks or lines of business.

State Fiscal Effect: The bill imposes additional communication requirements on insurers. Insurers would be required to inform homeowner's insurance policyholders of the specific reasons for actions taken that the bill regulates. Insurers would also have to inform policyholders of their right to protest and include a form to be sent to MIA to file the protest. Because of this, MIA could experience a significant increase in the number of complaints it receives about homeowner's insurance policies. Accordingly, special fund expenditures could increase by an estimated $42,000 in fiscal 2005, which accounts for the bill's October 1, 2004 effective date. This estimate reflects the cost of hiring one complaints analyst to process and investigate additional complaints filed under the bill. It includes the salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	$36,700
Other Operating Expenses	5,300
Total FY 2005 State Expenditures	**$42,000**

Future year expenditures reflect: (1) full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

MIA advises that it would adopt a protest form similar to the one used for private passenger motor vehicle liability insurance policies. Any insurer that wished to use its own similar form would be required to file the form and pay the $125 form filing fee. The number of forms that would be filed cannot be accurately estimated; however, MIA advises that, of the 840 insurers licensed to sell homeowner's insurance in the State, 143 report written premium. For illustrative purposes, if each of the 143 current sellers of homeowner's insurance filed a form, revenues for the Insurance Regulation Fund would increase by $18,750 in fiscal 2005. MIA is a special fund agency, funded by fee revenues and an assessment on insurers. Any costs associated with the bill not accounted for by filing fee revenues and MIA's current fund balance would be made up through an increase in the assessment on insurers.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Ryan Wilson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510