

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 261
Finance

(Senator Exum)

Maryland Automobile Insurance Fund - Premium Rates - Prohibition of Subsidy

This bill prohibits the Maryland Insurance Commissioner from approving a premium rate for the Maryland Automobile Insurance Fund (MAIF) that is not actuarially justified or that allows for a subsidy to one geographic region or territory.

Fiscal Summary

State Effect: The bill would not materially affect the finances or operations of the Maryland Insurance Administration (MIA).

MAIF: The bill would not materially affect MAIF's overall revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Subject to the approval of the Commissioner, MAIF's executive director is responsible for determining the premiums for policies issued by MAIF. Generally, MAIF premiums are subject to the State's "prior approval" rating system. In addition to the standards established for prior approval rating, the Commissioner, in reviewing rates for MAIF, must also consider MAIF's statutory purpose of providing the required minimum liability coverage to persons unable to obtain it from another insurer. MAIF's premiums may take account of an insured's or applicant's number of points accumulated in a driving record or prior claims experience.

For commercial coverage, a policyholder is entitled to continuation of coverage at rates that are reasonably comparable to those charged by standard insurers if, for three continuous years of coverage, the policyholder has not: (1) been charged with a moving traffic violation; (2) had a chargeable traffic accident; and (3) been assessed more than one point by the Motor Vehicle Administration. However, a policyholder is not entitled to a safe driver credit. MAIF may not consider: (1) a lapse in coverage of 30 days or less; and (2) the addition of specified drivers to the policy.

Background: Under the State's prior approval rating system, an insurer must file with the Commissioner all rates, supplementary rate information, policy forms, and endorsements and all modifications of these. The Commissioner must then approve the filings before their use.

MAIF: As part its rate filings with MIA, MAIF has been charging reduced rates on private passenger mandatory coverages to insureds who reside in Baltimore City. Insureds who receive the reduced rates pay 15% below what would be the actuarially justified rates for these coverages. MAIF advises that, to determine this figure, its actuary sets the rate for all rating territories at 100% adequacy, and then the actuary reduces the rates for private passenger mandatory coverages in Baltimore City by 15%. MAIF further advises that it has made up for this loss in revenue through its investment portfolio or absorbed it from its operating surplus. Under the bill, MAIF would no longer offer this reduction to Baltimore City insureds. After a review by its actuary, MAIF instituted a 7.2% overall rate reduction on December 1, 2005.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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nas/hlb

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