

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 245

(Delegates Vaughn and Love)

Economic Matters

Finance

Insurance - Prior Approval Rating Law - Exempt Commercial Policyholders

This bill lowers the threshold amount, from \$75,000 to \$25,000, that a person must pay in annual aggregate property and casualty insurance premiums for commercial policies to qualify as an “exempt commercial policyholder” under the State’s prior approval rating law.

Fiscal Summary

State Effect: Special fund revenues from the \$125 filing fee collected by the Maryland Insurance Administration (MIA) could decrease to the extent that insurers do not make filings because of the bill. The number of these filings cannot be accurately estimated but is assumed to be negligible.

Local Effect: Municipal corporations that become exempt commercial policyholders because of the bill could experience minimal savings in their insurance costs.

Small Business Effect: None.

Analysis

Current Law: In order for a policy to be considered exempt, the policyholder must pay annual property and casualty insurance premiums of at least \$75,000 for commercial insurance policies issued in the State and must meet any two of the following criteria:

- generate annual net revenues or sales in excess of \$10 million;

- possess a net worth in excess of \$5 million;
- employ at least 25 full-time employees;
- be a nonprofit organization or a public body with an annual budget of at least \$10 million; or
- be a municipal corporation with a population of at least 15,000 persons.

Under the State's prior approval rating system, an insurer must file with the Maryland Insurance 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. These filing requirements do not apply to policy forms, endorsements, and modifications issued to an exempt commercial policyholder.

An exempt commercial policyholder must certify, in writing, to the insurer issuing coverage and the Commissioner that it meets the eligibility requirements. Workers' compensation insurance policy forms are not eligible for the exemption. The Commissioner may require that insurers provide MIA with information on the number and types of policies written for exempt commercial policyholders. By regulation, the Commissioner may authorize an exempt commercial policyholder to procure insurance coverage from an unauthorized insurer.

Background: Generally, there are two models for filing and using insurance rates, forms, rules, etc. Under a "file and use" or "competitive rating" model, the insurer may use materials covered by the filing immediately. Under a "prior approval" model, a state's insurance regulator must approve the filed materials prior to their use.

Maryland has both models. Maryland's competitive rating law applies to rates for all types of insurance except life insurance, annuities, health insurance, specified marine insurance and aircraft insurance, reinsurance, insurance provided under the Maryland Automobile Insurance Fund, insurance provided under the Injured Workers' Insurance Fund, title insurance, medical malpractice insurance, specified group insurance, and surety insurance.

Additional Information

Prior Introductions: None.

Cross File: SB 63 (Senator Astle) – Finance.

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

Fiscal Note History: First Reader - January 30, 2006
ncs/ljm

Analysis by: T. Ryan Wilson

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