Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 285 (Delegate Holmes, *et al.*)
Economic Matters Finance

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

This bill prohibits an insurer, for homeowner's insurance, from refusing to underwrite a risk, increasing a premium, or canceling or refusing to renew coverage based on an "inquiry," as defined under the bill, by an insured or an insurance producer on an insured's behalf that does not result in the payment of a claim.

Fiscal Summary

State Effect: Special fund revenues could increase minimally in FY 2007 from rate and rule filing fees. General fund revenues could increase minimally from the 2% premium tax. 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.

When an insurer intends to increase a premium by 20% or more for a particular policy, the insurer must notify the insured and the insurance producer of the increase by first class mail at least 45 days before the effective date.

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 covering 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 2007 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 but is assumed to be minimal.

Additional Information

Prior Introductions: A similar bill, HB 363 of 2005, received an unfavorable report from the Economic Matters Committee. A similar bill, HB 245 of 2004, received an unfavorable report from the Economic Matters Committee. Another similar bill, SB 581 of 2004, received an unfavorable report from the Finance Committee.

Cross File: None.

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

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