

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 887
Finance

(Senator Exum)

Insurance - Maryland Automobile Insurance Fund - Calculation and Use of
Surplus

The bill requires the Maryland Automobile Insurance Fund (MAIF) to calculate its surplus by February 15 of each year and, if the surplus exceeds 40% of its net direct written premiums for the previous year, file for a premium rate reduction for all premiums with the Maryland Insurance Commissioner. A reduction must be applied on a pro rata basis among MAIF's policyholders for the current calendar year. The bill applies to all policies issued, delivered, or renewed by MAIF on or after October 1, 2006.

Fiscal Summary

State Effect: General fund revenues from the 2% insurance premium tax would decrease to the extent MAIF decreases rates because of the bill, and increase to the extent insurers increase rates because of the bill. Any increase in workload to review filings and insurance rates could be handled with the existing budgeted resources of the Maryland Insurance Administration.

MAIF: Revenues could decrease to the extent MAIF is required to reduce premiums because of the bill.

Local Effect: None.

Small Business Effect: Potential meaningful.

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.

If the amount MAIF has set aside to pay claims falls below the level adequate to pay claims, an assessment is made against insurers that write motor vehicle liability insurance and motor vehicle physical damage insurance in the State.

State Revenues: MAIF's premiums are subject to the 2% insurance premium tax. General fund revenues from the tax would decrease to the extent MAIF lowered rates because of the bill. Conversely, if an assessment were made against motor vehicle insurers because the amount that MAIF has set aside falls below adequate levels, general fund revenues would increase to the extent insurers raised rates. The amount of revenue that would be lost or generated cannot be accurately estimated but is assumed to be minimal.

MAIF: MAIF, like insurers generally, relies on reserves and surplus to pay anticipated liabilities. Money from premiums pays MAIF's operating expenses and claims, and, if the amount set aside proves inadequate, funds its surplus and reserves to pay for excess liabilities. If the amount MAIF has set aside falls below the level adequate to pay claims, an assessment would be made against insurers that write motor vehicle liability insurance and motor vehicle physical damage insurance.

Small Business Effect: Small businesses that are insured through MAIF could experience a decrease in premiums. If an assessment is made on insurers, it is assumed that those insurers would pass these costs along to their insureds.

Additional Information

Prior Introductions: None.

Cross File: HB 1371 (Delegate Krysiak, *et al.*) – Economic Matters.

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

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