

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1068 (Delegate McKee)  
 Economic Matters

**Homeowner’s Insurance - Cancellation or Nonrenewal of Policies - Right to Protest Proposed Action**

This bill establishes standards for an insured’s right to protest the cancellation or nonrenewal of a homeowner’s insurance policy to the Maryland Insurance Commissioner.

**Fiscal Summary**

**State Effect:** Special fund expenditures could increase by approximately \$93,800 in FY 2007 to process complaints filed under the bill. Out-year projections reflect annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	93,800	117,000	123,700	130,900	138,500
Net Effect	(\$93,800)	(\$117,000)	(\$123,700)	(\$130,900)	(\$138,500)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

**Analysis**

**Bill Summary:** If an insurer gives notice that it intends to cancel or not to renew a homeowner’s insurance policy, the notice must state in clear and specific terms: (1) the actual reason for the action; (2) the insured’s right to protest; and (3) that the insurer must

maintain the current coverage until a final determination, if a protest is filed and any premium due is paid.

An insured may protest a proposed action by signing a copy of the notice and sending it to the Commissioner within 30 days after the date of the notice. The Commissioner must notify an insurer of a protest. A protest stays the proposed action pending a final determination by the Commissioner, and the insurer must maintain the coverage and premium until the final determination.

Based on the information in the notice, the Commissioner must determine whether the protest has merit and dismiss the protest or allow the action.

The Commissioner must notify both parties about the Commissioner's action in writing. The notice to the insured must be sent by certified mail and must include a statement of the insured's right to request a hearing. Within 30 days after the Commissioner's notice, the aggrieved party may request an administrative hearing.

**Current Law:** Generally, for homeowner's insurance, 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.

Whenever an insurer cancels or refuses to renew a homeowner's insurance 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.

**Background:** The procedure for protesting a cancellation, premium increase, reduction in coverage, or nonrenewal applicable to motor vehicle liability insurance is similar to the procedures established under the bill. Under those procedures, after an individual receives notice from the insurer of an action, an individual may protest by signing two copies of the notice and sending them to the Commissioner within 30 days after the notice's mailing date. Except for a premium increase of 15% or less for the entire policy, the protest stays the proposed action until the Commissioner makes a final determination. Based on information in the notice, the Commissioner must either dismiss an insured's complaint or disallow the proposed action. If the party aggrieved by the Commissioner's decision so requests, the Commissioner must hold a hearing, except for a premium increase of 15% or less for the entire policy.

If the Commissioner finds the insurer's actions to be justified, the Commissioner must dismiss the protest and allow the action on the later of the action's proposed effective date or 30 days after the determination. If the Commissioner finds the proposed action to be unjustified, the Commissioner must disallow the action and award reasonable attorney's fees incurred by the insured under specified circumstances.

**State Fiscal Effect:** Currently, the Maryland Insurance Administration (MIA) has nine investigators to handle property and casualty insurance complaints. In an average year, the property casualty complaint unit receives approximately 3,700 complaints, of which approximately 500 are related to homeowner's insurance. Based on its experience with implementing the protestation procedures for motor vehicle insurance, MIA estimates that its complaints related to homeowner's insurance could increase by 900 annually. The average annual workload for an investigator is 450 complaints. Accordingly, additional personnel would be required to handle the extra workload.

To that end, special fund expenditures could increase by an estimated \$93,777 in fiscal 2007, which accounts for the bill's October 1, 2006 effective date. This estimate reflects the cost of hiring two investigators to process and investigate complaints under the bill. It includes salaries, fringe benefits, one-time start-up costs, postage for sending the notices by the Commissioner, and other ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$81,725
Operating Expenses	<u>12,052</u>
<b>Total FY 2007 State Expenditures</b>	<b>\$93,777</b>

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

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 6, 2006  
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