

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1084 (Delegate Impallaria)
Economic Matters

Motor Vehicle Insurers - Repair Products and Services - Rates

This bill requires the Maryland Insurance Commissioner to appoint an independent auditor to establish, on an annual basis, an average market rate for labor, parts, paint, and materials provided by motor vehicle repair facilities in the State.

Fiscal Summary

State Effect: Special fund expenditures would increase to pay costs associated with an auditor under the bill. Special fund revenues would increase by a like amount. General fund revenues would increase minimally from the 2% insurance premium tax.

Maryland Automobile Insurance Fund (MAIF): MAIF could experience an increase in claims payments. Any such increase would be offset by an increase in revenues from insurance premiums.

Local Effect: Local government expenditures related to motor vehicle liability insurance could increase minimally under the bill.

Small Business Effect: Minimal overall impact.

Analysis

Bill Summary: The bill requires separate average market rates for each geographic zone in the State commonly recognized in the insurance industry for purposes of determining market rates. The bill establishes criteria that the auditor must follow in determining the average market rate for a geographic zone.

By December 1 of each year, the auditor must report to the Insurance Commissioner on the average market rates established under the bill. The Commissioner then has to post on the Maryland Insurance Administration's (MIA) web site the average market rates that will be in effect by January 1 of the calendar year in which they will be in effect.

An insurer subject to the bill may not require a repair facility to accept payment for parts, labor, paint, or materials that is less than the average market rate in effect for the zone in which it is located.

The Commissioner must collect a fee sufficient to pay for the bill's implementation from each insurer subject to the bill.

Current Law: For motor vehicle insurance, an adjuster, appraiser, or insurance producer or employee of an insurer may not: (1) recommend the use of a specific repair service or source for the repair or replacement of property damage to a motor vehicle without informing the claimant or insured that the claimant or insured does not have to use the recommended repair service or source; (2) require an appraisal or repair to be made in a specific shop; (3) require a claimant or insured to use a specific contractor or repair shop; or (4) intimidate, coerce, or threaten a claimant or insured to use a specific contractor or repair shop. Intentional violators are subject to: (1) a maximum civil penalty of \$1,000 for each violation; and (2) denial, suspension, or revocation of any license issued by MIA.

Under these provisions, an adjuster or appraiser is a person that: (1) is employed by an insurer as, solicits business as, or represents to an insurer that the person is an adjuster or appraiser of claims for loss or damage covered by a motor vehicle insurance policy; or (2) under a contract, performs adjustments or appraisals for loss or damage covered by a form covering an automobile or security other than insurance.

A person who operates an automotive repair facility (including body shops) must keep accurate records at that facility about customers and repair parts used on customer vehicles. The records must be retained for at least one year and be available for inspection during normal business hours by the Motor Vehicle Administration, the Department of State Police, or a local law enforcement officer who is assigned to a local antitheft unit.

Under the Automotive Repair Facilities Act, an automotive repair facility must generally provide a written estimate for repairs, prepare an invoice of completed repairs, and unless waived by a customer, return all replaced parts to the customer. Violation of the Act is an unfair or deceptive trade practice under the Maryland Consumer Protection Act.

State Fiscal Effect: MIA would be required to contract with an independent auditor to survey the motor vehicle repair charges and establish average rates. Professionals who perform this type of service frequently charge around \$300 per hour for their services. By some estimates, there are over 1,980 body shops in Maryland. It is unknown how long it would take to perform a comprehensive survey of costs and develop average cost estimates, but a reasonable charge for providing could easily exceed \$50,000 to \$75,000 annually. These expenditures would be from the Insurance Regulation Fund. Any such cost would be passed along to motor vehicle liability insurers in fees under the bill.

Insurers would experience increased costs to the extent of any fee under the bill plus the amount of any increase in the repair costs they must pay. It is assumed that insurers would increase their rates to cover these costs. General fund revenues due to the insurance premium tax would increase to the extent insurers increased their rates because of the bill.

MAIF: MAIF estimates that the bill could result in a 5% increase in its body damage claims costs from paying higher fees to body shops under the bill. *For illustrative purposes*, MAIF paid approximately \$63.1 million in body damage claims in calendar 2006. A 5% increase would represent \$3.1 million, for a total of \$66.2 million. Any increase would be passed along to MAIF's insureds.

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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