HB 1087

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1087 (Delegate Kirk, *et al.*)
Economic Matters

Automobile Insurance - Discrimination in Underwriting - Prohibitions

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This bill prohibits an insurer, for automobile liability insurance, from refusing to underwrite, cancelling, or refusing to renew a risk based on the occupation or education of an applicant or insured. The bill also prohibits an automobile liability insurer from rating a risk based on the occupation or education of an applicant or insured in any manner, including specified items.

Fiscal Summary

State Effect: Special fund revenues could increase by approximately $6,300 in FY 2008 from filings with the Maryland Insurance Administration (MIA). Any increase in workload could be handled with MIA's existing budgeted resources.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	$6,300	$0	$0	$0	$0
Expenditure	$0	$0	$0	$0	$0
Net Effect	$6,300	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Generally, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk for a reason that is arbitrary, capricious, or unfairly discriminatory. An insurer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by applying standards that are reasonably related to the insurer's economic and business purposes.

For automobile liability insurance, an insurer may not cancel, refuse to renew, or otherwise terminate coverage for an automobile insurance risk because of a claim, traffic violation, or traffic accident that occurred more than three years before the effective date of the policy or renewal. Similarly, an insurer may not refuse to underwrite an automobile insurance risk because of a claim, traffic violation, or traffic accident that occurred more than three years before the date of the application.

Background: In a recent market conduct examination, MIA made the following findings:

- the insurer's use of education and occupation as underwriting factors was reasonably objective;
- the insurer had demonstrated that education and occupation are predictors of loss;
- the insurer's use of education and occupation as risk characteristics meets actuarial standards of practice and principles related to risk classification;
- the insurer's use of education and occupation is actuarially reasonable;
- the insurer notified MIA that it does not use education or occupation to solely underwrite a risk – the examiners identified a sub-class of insured within an occupational group that was not eligible at the initial underwriting for the most preferred company based solely on occupation although it was eligible at renewal;
- the insurer has corrected the underwriting rule to ensure that no applicant is denied access to its preferred company based solely on occupation at the time of initial underwriting; and
- the insurer's use of education and occupation as underwriting factors does not violate the prohibition against refusing to underwrite or renew a particular insurance risk or class of risk for a reason that is arbitrary, capricious, or unfairly discriminatory.

State Fiscal Effect: MIA anticipates that it would receive approximately 50 filings because of the bill. Each filing is subject to the $125 filing fee. Thus, revenues for the Insurance Regulation Fund would increase by approximately $6,250 in fiscal 2008.

MIA anticipates that it would increase the number of market conduct examinations it performs to ensure compliance with the bill. If the examination is conducted at the insurer's place of business, MIA charges a per diem of $43 per day per examiner, contract actuaries at a rate of $200 per hour, and miscellaneous expenses. Each examination would take approximately 10 days per insurer. The number of examinations in one year varies. MIA would be reimbursed for these expenses by each insurer. If MIA is able to perform an examination in-house by reviewing documents at its location, it is unlikely that MIA would bill the insurer for the time.

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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