

**Department of Legislative Services**  
Maryland General Assembly  
2008 Session

**FISCAL AND POLICY NOTE**

House Bill 860

(Chair, Economic Matters Committee) (By Request –  
Departmental – Insurance Administration, Maryland)

Economic Matters

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**Property and Casualty Insurance - Underwriting Based on Geographic Area**

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This departmental bill prohibits an insurer from excluding coverage for specific dangers in a contract of motor vehicle, property, or casualty insurance solely because the subject of the risk or the policy holder's address is located in a certain geographic area of the State.

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**Fiscal Summary**

**State Effect:** Special fund revenues could increase due to insurer filings required by the bill. The Maryland Insurance Administration collects \$125 per filing. General fund revenues from the insurance premium tax would increase to the extent insurers increase rates because of the bill. Enforcement of the bill could be handled with the existing budgeted resources of MIA.

**Maryland Automobile Insurance Fund:** Since MAIF does not refuse coverage for any Maryland resident because of location, there is no fiscal or organizational impact to MAIF as a result of the bill.

**Local Effect:** The bill would not directly affect local finances or operations.

**Small Business Effect:** MIA has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

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## Analysis

**Bill Summary:** The bill permits insurers to exclude certain perils from coverage under a policy based on geographic area if • the insurer has adopted a written underwriting standard designating the geographic area; • the insurer has filed the underwriting standard for approval by the Insurance Commissioner; and • the Commissioner has approved the underwriting standard in writing. The filing required by the bill has to be made at least 120 days before the insurer proposes to implement that under writing standard in the State. In addition, the filing must include • a map or other document and a rating rule that identifies the geographic areas in which policies will be restricted; • a copy of the proposed underwriting standard; • the data relied upon by the insurer in developing the standard; and • the proposed implementation date for the standard. During the initial 120-day waiting period, the Commissioner may extend the waiting period up to an additional 60 days by giving written notice to the insurer that additional time is needed for consideration. If the Commissioner requires additional information, the waiting period is tolled and begins again on the date that the necessary information is received. Under the bill, a filing is deemed approved unless disapproved by the Commissioner during the waiting period.

The bill authorizes the Commissioner to allow an insurer to implement an underwriting standard within 60 days after filing if the Commissioner finds that compliance with the bill's time period provisions would result in impairment of or a significant financial loss to the insurer. Underwriting standards that restrict writing in specific geographic areas must • comply with existing State laws prohibiting discrimination in underwriting; • be demonstrated objectively; • include consideration of past and prospective loss experience within and outside the State; and • include consideration of all relevant historical weather data for any restriction that is based, in whole or in part, on a catastrophe model.

Some of the filing information required by the bill is open to public inspection as soon as filed – the map and implementation date; the underwriting standard and the data used to develop it may be considered confidential commercial information. Under the bill, the insurer bears the burden of proof to demonstrate that a proposed underwriting standard and geographic designation meet the bill's requirements. If the requirements are not met, the Commissioner may disapprove the filing and prohibit the insurer from implementing the proposed underwriting standard. Disapproval requires written notice.

At any time after an underwriting standard has been approved, the Commissioner may order the insurer to justify the standard if the Commissioner has reason to believe that the standard is no longer in compliance with the bill's provisions. The Commissioner must hold a hearing before issuing an order to revoke approval of an underwriting standard

covered by the bill. Notice specifying the matters to be considered at the hearing has to be provided to the insurer at least 10 days prior to the hearing.

**Current Law:** Insurers are prohibited from refusing to issue or renew a contract of motor vehicle, property, or casualty insurance solely because the subject of the risk or the policy holder's address is located in a certain geographic area of the State, unless • the insurer has filed with the Commissioner, at least 60 days before the refusal, a written statement designating the geographic area; and • the designation has an objective basis and is not arbitrary or unreasonable. Such statements are public records. Currently, the approval of the Commissioner is not required for an insurer to change underwriting policies in order to implement geographic coverage restrictions.

**Background:** In recent years, a number of large insurance companies have made decisions to stop offering property insurance in coastal areas due to an increased risk of hurricane damage linked to rising ocean temperatures. This trend began in Florida after 1992's Hurricane Andrew, a category-five hurricane that caused an estimated \$26.5 billion in damage. Recently, a number of insurance companies including Allstate, Liberty Mutual, Nationwide Mutual, and State Farm have decided to stop offering property insurance in Mid-Atlantic coastal areas, including many counties in Maryland. In Florida, Mississippi, and Louisiana, this same trend has led to state-run insurance pools becoming overwhelmed by consumers who can no longer obtain property insurance from private companies due to the geographic locations of their properties. Chapter 486 of 2007 established the Task Force on the Availability and Affordability of Property Insurance in the Coastal Areas. The task force has not yet issued a final report.

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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 - February 11, 2008  
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