

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 404

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

Economic Matters

Finance

Insurance Fraud - Required Disclosure Statements

This departmental bill requires insurers to include a fraud disclosure statement on all claim and application forms that informs the consumer that it is a crime to commit insurance fraud. This requirement does not apply to • reinsurance applications or claim forms; or • the uniform claims forms for reimbursement of hospital services or health care practitioners services. The bill specifies that the lack of this required statement does not constitute a defense in any legal action. All insurers have to comply with the bill by April 1, 2009.

Fiscal Summary

State Effect: Special fund revenues would increase by \$125 for each filing made by an insurer with the Maryland Insurance Administration of an application form redesigned according to the bill's requirements. MIA expects to receive approximately 100 such filings in FY 2009, resulting in special fund revenues of \$12,500. Enforcement of the bill could be handled with the existing budgeted resources of MIA.

Maryland Automobile Insurance Fund: Enforcement could be handled with existing resources of the Maryland Automobile Insurance Fund.

Local Effect: None.

Small Business Effect: MIA has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law/Background: There is currently no fraud disclosure requirement for insurers under Maryland law. Thus, in some past instances, the Insurance Fraud Division of MIA has been unable to prosecute perpetrators of insurance fraud because these individuals had not been given notice that certain activity is criminal. Providing advance written notice of what constitutes criminal activity helps strengthen prosecution of individuals who commit the specified crimes, because prosecutors are then able to later demonstrate that a perpetrator had knowledge that an activity was criminal when it was committed. In insurance fraud cases, prosecutions would be significantly strengthened by the ability to show that an individual was already aware of what constitutes insurance fraud, as well as the possible penalties, when that person completed the insurance application, filed claim forms, and endorsed the claim payment instrument.

Insurance fraud has a far-reaching effect on consumers and the national economy, in large part due to the massive size of the insurance industry. The Federal Bureau of Investigation estimates that the thousands of insurance companies in the United States collect nearly \$1 trillion in premiums each year and lose approximately \$80 billion due to insurance fraud. Insurance fraud costs are passed on to consumers, resulting in higher premiums; in fact, the FBI reports that such costs may raise yearly premiums by as much as \$300 per household. Common insurance fraud schemes include the submission of exaggerated or false insurance claims, premium diversions by unscrupulous insurance agents or brokers, and duplicate submission of the same claim to multiple insurance carriers.

Uniform claims forms for hospital and health care practitioners reimbursement already include a statement similar to that required by the bill. Moreover, these are federal forms that are adopted by the commission.

Reinsurance is a business-to-business transaction not typically subject to this type of fraudulent activity.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 11, 2008
mll/ljm Revised - House Third Reader - March 21, 2008

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