Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 859 (Chair, Economic Matters Committee)
(By Request – Departmental – Insurance Administration, Maryland)

Economic Matters Finance

Property and Casualty Insurance Policies - Coverage for Additional Living Expenses

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This departmental bill prohibits clauses in homeowner's, fire, farmowner's, or dwelling insurance policies that purport to limit coverage for additional living expenses incurred by an insured as a result of a covered loss to a period of time that is less than 12 months. Any such clause is void and unenforceable.

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.

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

Small Business Effect: MIA has determined that the 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

Bill Summary: The bill prohibits the issuance, sale, or delivery of such property and casualty insurance policies in the State. The bill authorizes the Maryland Insurance

Commissioner to require that an insurer provide coverage for additional living expenses under a policy for up to 24 months if the Commissioner finds that the covered property remains uninhabitable due to delay in repair or replacement caused by the insurer or factors beyond the control of the insured. The bill also states that it cannot be construed to • prohibit or prevent the enforcement of a monetary limit of liability for additional living expenses under a corresponding policy; • prohibit an insurer from denying coverage for additional living expenses if the carrier determines that the covered property was fit to live in at the time that the additional living expenses were incurred; or • prohibit an insurer from denying coverage for additional living expenses on the grounds that the covered property was unfit to live in at the time that the additional living expenses were incurred because of delays in repair or replacement caused by the insured.

Current Law: Clauses in property and casualty insurance policies that limit coverage for additional living expenses are not currently restricted by State law.

Background: Some homeowner's, fire, farmowner's, and dwelling insurance policies provide coverage that will help pay for living expenses incurred after the loss of a residence. This coverage, commonly referred to as "Additional Living Expense" or ALE coverage, will help the insured pay for housing, food, and other daily essentials. Most policies with ALE coverage specifically state the amount of coverage available, using formulas that calculate the difference between the cost-of-living expenses pre-loss and post-loss. For example, an insured family with a mortgage and grocery expenses before loss of their home might be staying in a hotel and eating at restaurants afterward, leading to increased housing and food costs. ALE coverage under a homeowner's insurance policy would generally pay for the difference in these costs, minus expenses no longer incurred after the loss, such as utilities. While some insurers provide ALE funding immediately following a loss, others require the insured to submit expense receipts for reimbursement at a later date.

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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