HB 27

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

House Bill 27 (Delegate Conaway)
Economic Matters

Automobile Insurance - Use of Territory in Rate Making - Limitation

This bill prohibits an insurer from using more than three territories, as established by the Insurance Commissioner, in developing automobile insurance premiums. The bill requires the Insurance Commissioner to establish at least one urban territory and one rural territory.

Fiscal Summary

State Effect: Special fund expenditures for the Maryland Insurance Administration (MIA) increase by $37,000 in FY 2011 and $43,400 in FY 2012 for contractual staff to handle an increase in consumer complaints related to the territory changes. Potential minimal special fund revenue increase in FY 2011 from the $125 filing fee to the extent that automobile insurers file rates or rules because of the bill.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	-	$0	$0	$0	$0
SF Expenditure	$37,000	$43,400	$0	$0	$0
Net Effect	($37,000)	($43,400)	$0	$0	$0

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

Maryland Automobile Insurance Administration (MAIF): Expenditures for MAIF increase minimally in FY 2011 to implement changes to its ratings territories.

Local Effect: Any changes to rating territories are not anticipated to affect the overall cost of insurance to local governments.

Small Business Effect: Minimal.

Analysis

Current Law/Background: An insurer that uses territories as a factor in establishing automobile insurance rates must submit a statement to the Commissioner certifying that the territories being used have been reviewed within the past three years and that the use of territories is actuarially justified. By July 1 of each year, the Commissioner must report to the General Assembly about the use of territories as a factor in establishing private passenger automobile insurance rates by insurers and MAIF. The report must provide information on the number of insurers actively providing private passenger automobile insurance coverage in Maryland as well as the number of insurers that use territories to establish private passenger automobile insurance rates.

Background: In its June 2009 report on the use of territory as a rating factor in establishing private passenger automobile insurance rates, MIA noted that, in 2008, 167 insurers had written private passenger automobile insurance policies during the calendar year. Of those 167 insurers, 136 utilized territory as a rating factor, representing 99% of the market share for private passenger insurance policies written in the State. The 21 insurers that do not use territory as a rating factor provide insurance for specialty vehicles where there is no correlation between territory (garaging location) and exposure to loss. Types of specialty insurers include those that write policies for antique automobiles and recreational vehicles. Another 10 insurers are not writing new business.

State Expenditures: Special fund expenditures within MIA increase by $36,998 in fiscal 2011, which accounts for the bill's October 1, 2010 effective date. This estimate reflects the cost of hiring one contractual complaint investigator to handle projected inquiries concerning the rate changes to consumers' automobile insurance premiums.

Position	1
Salary and Fringe Benefits	$33,039
Operating Expenses	3,959
Total FY 2011 State Expenditures	**$36,998**

This estimate assumes complaints rise in fiscal 2011 and gradually decrease thereafter, as consumers become accustomed to their newly adjusted automobile insurance rates. Thus, the contractual complaint investigator will likely no longer be needed after fiscal 2012. However, to the extent complaints remain constant or gradually increase, the contractual investigator may need to be converted to a permanent position or additional staff may be required. Future year expenditures reflect a full salary with 4.4% annual increases, 6.8% employee turnover, and 1% annual increases in ongoing operating expenses.

MAIF: MAIF has nine ratings territories in the State, and the majority of the territories must be revised under the bill. Any additional costs to reprint and distribute updated manuals to insurance producers and any additional computer programming costs can likely be handled with existing resources. Moreover, while total premiums collected stay the same, the rates paid by policyholders shift, potentially significantly, from one existing territory to newly consolidated territories. The actual territories must be established by the Commissioner. Nevertheless, the consolidation is likely to result in the same or significantly lower rates for policyholders in Baltimore City, depending on whether the city is the lone urban territory or is consolidated with other jurisdictions to share the risk. Likewise, policyholders in existing territories with relatively low rates are likely to pay higher rates under the bill.

Additional Information

Prior Introductions: HB 991 of 2009 received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

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

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