

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1157
Economic Matters

(Delegates Rudolph and Conway)

Homeowner's Insurance - Cancellation or Nonrenewal - Water Proximity and Storms

This bill prohibits insurers from canceling or failing to renew a homeowner's insurance policy in the State, or issuing a notice of nonrenewal of a homeowner's policy, solely on the basis of proximity to water or on the basis of risk of claims related to windstorms. Each failure to renew a homeowner's policy must be substantiated by underwriting rules that the Insurance Commissioner may request at any time.

The bill applies retroactively to affect any nonrenewal of a homeowner's policy on or after September 1, 2010, on the basis of proximity to water or claims related to windstorms. An individual whose homeowner's policy was canceled or nonrenewed on either of these bases, and who has not subsequently obtained coverage in the voluntary market, may reapply to the insurer that canceled or refused to renew coverage. The insurer may not refuse to issue renewal coverage, including the same coverage that the homeowner's policy had before the cancellation or nonrenewal.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: Minimal special fund revenue increase for the Maryland Insurance Administration (MIA), beginning in FY 2011, from the \$125 rate and form filing fee because some insurers may amend their contracts to reflect the bill's requirements. The review of filings can be handled within existing MIA resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: If an insurer uses a catastrophic risk planning model or other model in setting homeowner's insurance rates or refusing to issue or renew homeowner's insurance because of the geographic location of the risk, the insurer must (1) file with the Commissioner a description of the specific model; and (2) make arrangements for the vendor of the model to explain to the Commissioner the data used in the model and the manner in which the output is obtained. If the insurer changes the model, the insurer must notify the Commissioner of the change and file the required description. The information contained in the filings is proprietary and confidential commercial information as protected by the State Government Article.

Furthermore, an insurer may not refuse to issue or renew a property or casualty insurance policy solely because the subject of risk is located in a specified geographic area, unless (1) the insurer has filed, at least 60 days before the refusal, with the Commissioner a written statement designating the geographic area; and (2) the designation has an objective basis and is not arbitrary or unreasonable. The information contained in the filings is a public record.

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 location of their properties. On February 11, 2008, the Maryland Insurance Commissioner announced a decision accepting Allstate's move to refuse new homeowner's insurance policies in specific coastal areas, holding that the company's decision did not violate existing State law.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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