HB 1159

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 1159 (Delegates Rudolph and Conway)
Economic Matters

Homeowner's Insurance - Plan of Material Reduction - Limitations

---

This bill places limitations on an insurer's ability to (1) file a plan of material reduction in a geographic area used in a model filed with the Insurance Commissioner; (2) and cancel or fail to renew a policy of homeowner's insurance in that area. The bill also modifies the definition of material reduction.

The bill applies retroactively to any cancellation or nonrenewal of a homeowner's insurance policy on or after September 1, 2010. An individual whose homeowner's policy was canceled or nonrenewed on such a basis, 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 due to some insurers amending their contracts. The review of forms can be handled within existing MIA resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill alters the definition of "material reduction" to be a reduction of homeowner's insurance policies in force for an insurer over a one-year period due to cancellations or nonrenewals solely because the subject of the risk or the insured's address is located in a specified geographic area of the State either (1) by 3% or more, if on a statewide basis; *or* (2) by 10% or more, if on the basis of a defined geographic area used in a model that the insurer is required to file with Insurance Commissioner and uses to classify property.

An insurer may not file a plan of material reduction in a geographic area used in a model required to be filed with the Insurance Commissioner or cancel or fail to renew a homeowner's insurance policy in that area if the decision is (1) solely based on either an actual change in the insurer's model or an interpretation of that model; or (2) in an area that does not correspond directly with the geographic area used in the model.

However, the Commissioner may approve a filing of a plan of material reduction if the insurer demonstrates a material change in claims history or experience in the geographic area. An insurer may then cancel or fail to renew a policy of homeowner's insurance in the geographic area based on the Commissioner's approval of the plan of material reduction.

Current Law: *Plan of Material Reduction*: A "material reduction" is defined as a reduction of homeowner's insurance policies in force for an insurer on a statewide basis by 3% or more due to cancellations or nonrenewals solely because the subject of the risk or the insured's address is located in a certain geographic area of the State. An insurer is required to file with the Commissioner a plan for orderly reduction at least 60 days before implementing a plan of material reduction. The plan has to (1) describe the insurer's contemplated actions; (2) set forth the reasons for the actions; (3) describe the measures the insurer intends to take in order to minimize market disruption; and (4) provide any other information required by the Commissioner. Unless the Commissioner finds that there would be an impairment of the insurer or a significant financial loss to the insurer, a plan of material reduction may not take effect until 60 days after it is filed with the Commissioner.

The Commissioner has to approve the plan of material reduction if the insurer demonstrates that the material reduction would be accomplished in a manner that minimizes market disruption in the areas of material reduction. When reviewing a plan of material reduction, the Commissioner has to assess the impact of the plan of material reduction in each county of the State and areas within one mile of any saltwater shoreline directly adjacent to the Chesapeake Bay. If the Commissioner disapproves the plan, the

Commissioner must state any points of objection with the plan and any amendments to the plan the Commissioner requires.

Catastrophic Risk Planning Model: 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

Fiscal Note History: First Reader - March 14, 2011
ncs/ljm

Analysis by: Michael F. Bender

Direct Inquiries to:
(410) 946-5510
(301) 970-5510