

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 30

(Senators Klausmeier and Kittleman)

Finance

Economic Matters

Injured Workers' Insurance Fund - Cancellation of Policies - Failure to Pay a Premium

This bill modifies the manner in which the Injured Workers' Insurance Fund (IWIF) may cancel a policy for nonpayment of a premium. Specifically, the bill aligns IWIF's cancellation procedures with those of other workers' compensation insurers by allowing IWIF to cancel policies in accordance with the Insurance Article. The bill also authorizes IWIF to pursue collection of the debt of any policyholder whose insurance is cancelled for nonpayment of a premium and repeals provisions of law relating to the referral of such cases to the Attorney General.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: The bill's repeal of provisions of law relating to the referral of certain cases to the Attorney General is not expected to materially affect governmental finances or operations because few cases are so referred.

Injured Workers' Insurance Fund Effect: IWIF expenditures decrease by up to \$200,000 annually beginning in FY 2013 to reflect savings in certified mail and administrative costs. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: IWIF administers workers' compensation for the State and provides workers' compensation insurance to firms that are unable to procure insurance in the private market. IWIF writes policies only in Maryland and is the exclusive residual workers' compensation insurer in the State. IWIF cannot decline businesses that seek coverage and must adjust rates in response to changing market conditions. In Maryland, IWIF is a major insurer with approximately 25% of the market.

A cancellation or nonrenewal of a workers' compensation insurance policy for reasons other than nonpayment of a premium must be made with 30 days' notice and by either personal service or certified mail. This requirement applies both to IWIF and to insurers generally. (As insurer of last resort, IWIF may cancel a policy – other than for nonpayment of a premium – only for failure to either provide payroll information or cooperate in an audit.)

With regard to cancellation or nonrenewal based on nonpayment of a premium, procedural requirements for IWIF differ from those for insurers generally. An insurer may, in general, cancel or nonrenew a policy for nonpayment of a premium with 10 days' written notice by certificate of mail. IWIF, however, is required to give 10 days' written notice by either personal service or by certified or registered mail.

IWIF may refer to the Attorney General, for collection, the debt of any policyholder whose insurance is cancelled for nonpayment of a premium. IWIF advises that it currently refers a small number of cases to the Attorney General for collection, but that doing so is purposeless since the Attorney General no longer serves as general counsel to IWIF (and has not done so since 1994).

IWIF Effect: IWIF advises that, under the bill, it will send approximately 25,000 annual cancellations by certificate of mail (rather than by certified mail) for an annual savings of approximately \$146,250 in shipping costs. IWIF further advises that the bill will result in additional savings associated with administrative and processing costs (including costs associated with IWIF's use of contractual services to assist with the certified mailing process), for a total savings of between \$175,000 and \$200,000 annually. Legislative Services concurs with this estimate and advises that, under the bill, IWIF expenditures decrease by up to \$200,000 annually beginning in fiscal 2013 to reflect savings in certified mail and administrative staff costs.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General, Department of Budget and Management, Maryland Insurance Administration, Injured Workers' Insurance Fund, Workers' Compensation Commission, Department of Legislative Services

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