

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 950
Finance

(Senator Mathias)

Personal Automobile Insurance - Rescission of Policy or Binder -
Misrepresentations by Applicant

This bill authorizes an insurer to rescind a policy or binder of personal automobile insurance if an applicant misrepresents that (1) a motor vehicle covered under the policy or binder is principally garaged at a specific location in the State or (2) an owner or operator of a motor vehicle covered under the policy or binder resides in the State. At the time of application, the insurer must provide notice of its ability to rescind the policy or binder based on the aforementioned misrepresentation. Before rescinding coverage, the bill requires the insurer to (1) apply underwriting standards that clearly state the ineligibility of a risk based on the misrepresentation and (2) conduct a reasonable investigation to confirm that an applicant has made the misrepresentation.

The bill applies prospectively to all policies and binders of personal automobile insurance issued or delivered on or after the bill's October 1, 2013 effective date.

Fiscal Summary

State Effect: The bill's changes can be handled with existing budgeted resources. Special fund revenues increase minimally in FY 2014 for the Maryland Insurance Administration from the \$125 rate and form filing fee.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A binder or policy is subject to a 45-day underwriting period beginning on the effective date of coverage. Binders are a written or oral acknowledgment that an insurance applicant has accepted an insurer's offer to purchase insurance coverage. During this underwriting period, an insurer may cancel a binder or policy if the risk does not meet the underwriting standards of the insurer. An insurer must provide notice of this ability either at the time of application or when a binder or policy is issued.

A notice of cancellation must be in writing, be sent to the named insured's last known address, and be mailed at least 15 days before the cancellation's effective date. The notice must also clearly and specifically state the insurer's actual reason for the cancellation. If the cancellation is for nonpayment of premium, the notice must be sent at least 10 days before the cancellation's effective date and state the insurer's intent to cancel due to nonpayment.

An insurer may also rescind a policy or binder of automobile insurance if (1) the applicant's initial premium payment is made by a dishonored check or other remittance and (2) the insurer has disclosed to the applicant at the time of application that no coverage will be in effect if the initial premium payment is not honored on presentation. If an insurer rescinds a policy or binder because of a dishonored check, the insurer must immediately, or within the next business day, notify the applicant and any secured creditor of the rescission. The notice must also state that no coverage is in effect under the policy or binder but that the insurer may continue or reinstate the policy or binder if specified conditions are met.

In the case of homeowner's insurance and automobile insurance, an insurer may cancel a policy mid-term if the insured does not pay the policy premium. At least 10 days before the date an insurer proposes to cancel a policy for nonpayment of premium, the insurer must send, by certified mail, to the named insured at the named insured's last known address a written notice of intention to cancel for nonpayment of premium.

The Maryland Automobile Insurance Fund (MAIF) is authorized to void a policy if a prospective insured fails to meet MAIF's eligibility requirements, which include a requirement that the person be domiciled in the State.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mlm/ljm

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