

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 854
Finance

(Senator Kelley)

Uninsured Motor Vehicle Coverage - Exclusion

This bill authorizes a motor vehicle liability insurer to exclude uninsured motorist coverage when an insured's motor vehicle is involved in a collision with another motor vehicle that leaves the scene of the collision unless (1) the collision involves actual direct physical contact between the two vehicles; (2) the owner or operator of the vehicle that leaves the scene is identified or the motor vehicle that leaves the scene is identified by its license plate number; and (3) the collision is reported to the appropriate law enforcement agency within seven business days. The bill also specifies that it is *not* an unfair claims settlement practice for an insurer to refuse to pay an uninsured motorist claim if these requirements are not met.

The bill applies to all private passenger motor vehicle liability insurance policies issued, sold, or delivered in the State on or after the bill's October 1, 2016 effective date.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues increase minimally in FY 2017 due to \$125 rate and form filings. Review of the filings can be handled with existing resources; however, MIA special fund expenditures increase minimally to the extent the bill results in additional complaints related to the coverage that may be excluded. General fund revenues decrease due to the 2% tax collected on all premiums in the State to the extent that the bill results in lower automobile insurance policy premiums, as discussed below.

Maryland Automobile Insurance Fund (MAIF) Effect: If MAIF excludes uninsured motorist coverage in the manner authorized by the bill, nonbudgeted expenditures decrease for claim payments due to the reduced liability, as discussed below. Revenues decrease correspondingly as MAIF lowers its premiums due to the reduced liability.

Local Effect: The bill does not materially affect local governmental operations or finances.

Small Business Effect: Minimal.

Analysis

Current Law/Background:

Required Securities

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to \$15,000;
- unless waived, for personal injury protection of \$2,500 per person; and
- for uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

Uninsured Motorist Coverage

Uninsured motorist coverage pays for injury and damages caused by an uninsured or hit-and-run driver. This coverage reimburses the policyholder, members of the policyholder's family, or designated driver for an accident caused by the uninsured motorist. This coverage generally pays for medical bills and wage loss; pain, suffering, and disfigurement; emotional distress; and loss of future earning capacity. Uninsured motorist coverage may also include property damage as long as the insurer's coverage is at least equal to the required coverage under MAIF's uninsured division and minimum coverage levels specified in Title 17 of the Transportation Article.

If an insured's liability coverage under his or her private passenger motor vehicle liability insurance exceeds the amount required by State law, the insured may choose to partially waive the required uninsured motorist coverage; this must be done on a written form that is approved by the Commissioner and include specified information about the nature, extent, benefit, and cost of the level of uninsured motorist coverage being waived. The

waiver allows any uninsured motorist coverage to meet the minimum required insurance for liability coverage; otherwise, uninsured motorist coverage must equal the liability coverage of the policy.

Unfair Claims Settlement Practices

Insurance Law specifies a variety of activities that constitute an unfair claims settlement practice if performed by an insurer, nonprofit health service plan, or health maintenance organization. They include (1) misrepresenting facts or policy provisions related to the claim or policy at issue; (2) refusing to pay a claim for an arbitrary or capricious reason based on all available information; (3) attempting to settle a claim based on an application that is altered without notice to, or the knowledge or consent of, the insured; (4) failing to include with each claim paid to an insured or beneficiary a statement of the coverage under which the payment is being made; and (5) numerous other activities.

Insurance Law also grants the Insurance Commissioner the authority to impose a specified penalty against insurers, nonprofit health service plans, or health maintenance organizations that commit unfair claims settlement practices. In addition to such a penalty, the Commissioner may require such an insurer, nonprofit health service plan, or health maintenance organization to make restitution to each claimant who has suffered actual economic damages because of the violation.

MAIF Fiscal Effect: MAIF advises that it paid 2,522 uninsured motorist claims in 2015 and that about 10% of those claims would have been affected by the bill. Thus, MAIF estimates that, if it had excluded coverage for hit-and-run collisions in the manner authorized, its expenditures for payment of claims would have decreased by as much as \$590,000. MAIF further advises that these savings are minimal compared to its total claims and would not likely yield significantly lower premiums for its 45,000 policyholders.

State Revenues: General fund revenues decrease due to the 2% tax collected on all premiums in the State, to the extent that insurers exclude hit-and-run collisions from uninsured motorist coverage in the manner authorized by the bill and premiums are reduced as a result. However, the number of insurers that will exclude the coverage and any corresponding decrease in premium tax revenues cannot be reliably estimated at this time.

For illustrative purposes only, using the MAIF estimate from above, if MAIF were to lower the premiums for its policyholders by \$590,000 (the total amount of estimated savings on payment of claims), general fund revenues from MAIF premiums would decrease by \$11,800. Because MAIF only captures about 2% of all motor vehicle liability insurance policies in the State, general fund revenues likely decrease minimally based on the choices of other motor vehicle insurers in the State.

Additional Information

Prior Introductions: None.

Cross File: HB 1348 (Delegate Brooks, *et al.*) - Economic Matters.

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

Fiscal Note History: First Reader - February 28, 2016
kb/ljm

Analysis by: Richard L. Duncan

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