

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 1028  
Finance

(Senator Pugh)

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Motor Vehicle Insurance - Discrimination in Underwriting and Rating -  
Prohibitions

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This bill prohibits an insurer of a private passenger motor vehicle insurance policy from refusing to underwrite, canceling, refusing to renew, rating a risk, or increasing the renewal premium based, in whole or in part, on the (1) credit history of the insured or applicant; (2) marital status of the insured or applicant; (3) employment or occupation of the insured or applicant; or (4) education level attained by the insured or applicant. The bill also repeals provisions of law that govern the use of an applicant's credit history to establish rates for a private passenger motor vehicle insurance policy.

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Fiscal Summary

**State Effect:** Maryland Insurance Administration (MIA) special fund revenues increase minimally in FY 2017 due to \$125 rate and form filings fees; the volume of the filings that must be reviewed may necessitate additional contractual support for that year only. However, MIA special fund expenditures increase minimally to the extent the bill results in complaints related to changes in the rate making standards. General fund revenues may be affected, as discussed below.

**Maryland Automobile Insurance Fund (MAIF) Effect:** Although the bill changes the factors that a private passenger motor vehicle insurer may take into consideration to determine premiums, it is not expected to change the total amount of premiums collected by MAIF or any corresponding premium tax revenue. The bill's requirements can be handled with existing resources.

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

**Small Business Effect:** Minimal.

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## **Analysis**

**Current Law:** Insurance law defines “credit history” to mean any written, oral, or other communication of any information by a consumer reporting agency that has bearing on a consumer’s creditworthiness, credit standing, or credit capacity used for the purpose of determining personal lines insurance premiums or eligibility for coverage.

*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).

*Credit History and Automobile Insurance Policies:* The insurer of a private passenger motor vehicle insurance policy may not (1) refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or in part, on the credit history of the insured or applicant or (2) require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant. However, an insurer may use the credit history of an applicant to rate a new policy of private passenger automobile insurance.

An insurer that uses an applicant’s credit history to rate a policy must meet the following requirements. The insurer:

- may not take into account a factor on the credit history that occurred more than five years prior to the issuance of the new policy;
- must advise the applicant that his or her credit history is used and, if requested, provide a premium quote that distinguishes the portion of the premium attributable to the applicant’s credit history;
- may not use the absence of credit history, the inability to determine the applicant’s credit history, or the number of inquiries about the applicant’s credit history as factors in the rating; and
- must review the credit history of an insured whose premium was raised due to credit history at the initial rating of the policy every two years or on the request of the insured, and the insurer must adjust the premium accordingly. The insurer must

also disclose this requirement to the applicant at the time the insurance policy is issued.

An insurer that uses an applicant's credit history to rate a policy may provide a discount of up to 40% or impose a surcharge of up to 40%.

**MAIF Fiscal Effect:** MAIF advises that it currently does not use an insured's credit history, employment or occupation, or education level for any reason; however, it does provide a 3% to 5% discount based on marital status. This discount applies for about 20% of MAIF's policies. Under the bill, premiums for MAIF's insureds who receive the discount increase by approximately \$57 to \$95 annually, and rates for drivers who do not receive the discount decrease by a corresponding \$12 to \$20 annually. This results in no net impact on the total premiums collected by MAIF.

**State Revenues:** Title 6 of the Insurance Article imposes a 2% premium tax on each authorized insurance company, surplus lines broker, or unauthorized insurance company that sells, or an individual who independently procures, any type of insurance coverage upon a risk that is located in the State. Revenues generally accrue to the general fund.

Currently available information indicates that private passenger automobile insurers in the State are uncertain as to what effect the bill has on premiums for private passenger automobile insurance policies. Thus, the direction and extent of any impact on general fund revenues through the premium tax cannot be reliably estimated at this time.

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### **Additional Information**

**Prior Introductions:** SB 749 of 2015 received a hearing in the Senate Finance Committee, but no further action was taken.

**Cross File:** None.

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

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Analysis by: Richard L. Duncan

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