

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 32

(Chair, Finance Committee)(By Request - Departmental -
Maryland Insurance Administration)

Finance

Economic Matters

Insurance - Cancellation of Policy or Binder - Notice Requirements

This departmental bill clarifies that the requirements of § 27-613 of the Insurance Article do not apply to the cancellation of a private passenger motor vehicle liability insurance policy or binder during the 45-day underwriting period immediately after the policy or binder takes effect. Specifically, the bill exempts an insurer that provides such a policy or binder from notice requirements contained in that section. Similarly, the bill clarifies that the notice requirements of § 19-406 of the Insurance Article do not apply to the cancellation of a workers' compensation insurance policy during the same 45-day underwriting period. The bill also requires each workers' compensation insurer to file a copy of the notice of cancellation it uses when cancelling a policy during the 45-day underwriting period with the Workers' Compensation Commission.

Fiscal Summary

State Effect: The bill does not materially affect State finances or operations.

Chesapeake Employers' Insurance Company (Chesapeake) Effect: The bill does not affect Chesapeake operations or finances because Chesapeake is not authorized to cancel a policy during the 45-day underwriting period.

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

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: Section 12-106 of the Insurance Article subjects a binder or policy of personal insurance, commercial property insurance, and commercial liability insurance to a 45-day underwriting period beginning on the effective date of coverage. A binder is 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 (1) may cancel a binder or policy if the risk does not meet its underwriting standards and (2) must recalculate a binder or policy if a material risk factor is discovered. The insurer must provide notice of these abilities either at the time of application or when a binder or policy is issued. A notice of cancellation must be sent by a first-class mail tracking method at least 15 days before the cancellation's effective date or at least 10 days before the effective date if the cancellation is due to nonpayment. An insurer may also rescind a policy or binder 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.

Section 27-613 of the Insurance Article authorizes a private passenger motor vehicle liability insurer to cancel or refuse to renew a policy or binder and reduce coverage under a policy; however, for binders, the binder must have been in effect for at least 45 days. To take such an action, an insurer must send written notice to the last known address of the insured at least 45 days before the proposed action's effective date. A notice of cancellation or nonrenewal must be sent by certified mail, and all other notices must be sent by a first-class mail tracking method. An insurer may not cancel a policy midterm except in specified situations such as for nonpayment of a premium. If a cancellation is due to nonpayment of a premium, an insurer must send a written notice by a first-class mail tracking method at least 10 days before the cancellation takes place.

Section 19-406 of the Insurance Article requires a workers' compensation insurer to meet certain notice requirements before cancelling or refusing to renew a policy. Specifically, the insurer must serve on the employer, by personal service or certified mail addressed to the last known address of the employer, a notice of intention to cancel or not renew the policy at least 45 days before the date of cancellation or nonrenewal. The notice must state when the cancellation or nonrenewal takes effect and state the actual reason for proposing the cancellation or nonrenewal of the policy. If a cancellation is due to nonpayment of a premium, the notice must be given at least 10 days before the date of cancellation or nonrenewal instead. In either case, a copy of the notice must also be filed with WCC.

Background: MIA advises that there has been industry confusion over § 12-106 and § 27-613 of the Insurance Article because both sections contain provisions that require notice to be sent when a private passenger automobile insurance policy is canceled during its first 45 days. Specifically, MIA advises that this is due to a drafting oversight in

§ 27-613 and that section was not intended to apply during the first 45 days of a policy. A similar oversight exists for workers' compensation insurance policies and is also being addressed by the bill. Furthermore, the notice requirements of § 12-106 are still in effect during that time period for both types of insurers.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration; Chesapeake Employers' Insurance Company; Workers' Compensation Commission; Department of Legislative Services

Fiscal Note History: First Reader - January 11, 2017
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Private Passenger Motor Vehicle -- Cancellation

BILL NUMBER: SB 32

PREPARED BY: Nancy Egan
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PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS