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FISCAL AND POLICY NOTE
First Reader

Senate Bill 233
Finance

(Senator Young, *et al.*)

Motor Vehicle Insurance - Discrimination in Underwriting and Rating - Use of
Occupation or Education Level

This bill prohibits a private passenger motor vehicle insurer from using an applicant's or insured's occupation or education level to refuse to underwrite, cancel, refuse to renew, rate a risk, or increase the renewal premium of a motor vehicle insurance policy.

Fiscal Summary

State Effect: Minimal special fund revenue increase from the \$125 rate and form filing fee in FY 2020. Maryland Insurance Administration review of additional filings may necessitate contractual support in FY 2020 only; special fund expenditures also increase minimally that year if changes in rate making standards (and the loss of discounts) result in more complaints. General fund revenues may be affected, as discussed below.

Maryland Automobile Insurance Fund Effect: The bill does not directly affect Maryland Automobile Insurance Fund Effect (MAIF) finances or operations.

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

Small Business Effect: Minimal.

Analysis

Current Law: Insurance law does not explicitly prohibit (or authorize) a private passenger motor vehicle insurer from using an applicant's or insured's occupation or education level when underwriting and rating a policy.

A private passenger motor vehicle insurer 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 an insured or applicant or (2) require a particular payment plan based, in whole or in part, on the credit history of an insured or applicant. However, an insurer may use the credit history of an applicant to rate a new policy of private passenger automobile insurance if the insurer meets other specified requirements. For example, if the insurer uses credit history and doing so results in higher premiums for an insured, the insurer must review the insured's credit history every two years or on request of the insured. Based on this review, the insurer must adjust the premium to reflect any improvement in the insured's credit history.

In addition to the limitations on using credit history to underwrite and rate an insurance policy, Chapters 639 and 640 of 2017 prohibit auto insurers from increasing the premium for an insured who becomes a surviving spouse based solely on the insured's change in marital status.

An automobile liability insurer may not cancel, refuse to renew, or terminate insurance coverage because of a claim, traffic violation, or accident that occurred more than three years before the effective date of the policy application or renewal.

Background: In Maryland, auto insurers use complex formulas with numerous variables to determine premium rates for insurance policies. Insurers attempt to measure how likely an insured is to make claims or have accidents based on the characteristics of the driver and the insured vehicle. For example, the characteristics include driving records (*e.g.*, accidents and violations); county or zip code of residence; gender; age; occupation; education level; marital status; prior insurance coverage history; and age, make, and model of the vehicle being insured.

Many insurers also offer discounts for behaviors that correlate with good driving and less expensive claims in the event of an accident. For example, some insurers offer discounts for good driving records, safety devices installed in the vehicle, anti-theft devices installed in the vehicle, and good grades if the insured is a student.

MAIF advises that it does not use an applicant's or insured's occupation or education level for any reason.

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 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.

Additional Information

Prior Introductions: SB 945 of 2018 received a hearing in the Senate Finance Committee, but no further action was taken. Its cross file, HB 656, received a hearing in the House Economic Matters Committee, but no further action was taken.

Cross File: HB 329 (Delegate Sydnor, *et al.*) - Economic Matters.

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

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