

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 949 (Delegate Washington)
Economic Matters

Motor Vehicle Insurance - Discrimination in Underwriting and Rating - Use of Territory

This bill prohibits a private passenger motor vehicle insurer from using an applicant's or insured's territory (generally the applicant's or insured's zip code, county, or city of residence) to refuse to underwrite, cancel, refuse to renew, rate a risk, or increase the renewal premium of a motor vehicle insurance policy and makes conforming changes. **The bill applies to all automobile insurance policies offered, issued, or delivered in the State on or after January 1, 2020.**

Fiscal Summary

State Effect: Minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the \$125 rate and form filing fee in FY 2020. MIA review of additional filings may necessitate contractual support in FY 2020 only; special fund expenditures also increase minimally in FY 2020 if changes in rate making standards result in more complaints. 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 attributable to MAIF policies. The bill's requirements can be handled with existing resources.

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

Small Business Effect: Minimal.

Analysis

Current Law: An automobile insurer in the State is authorized to use territory as a rating factor only if the insurer submits a statement to the Insurance Commissioner certifying that (1) the territories used by the insurer have been reviewed within the previous three years and (2) the use of the territories is actuarially justified.

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 automobile 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, automobile 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.

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.

MAIF Fiscal Effect: MAIF advises that, while the bill is not expected to affect its total revenue because premium rates are established to cover overall risk, the bill's prohibition would significantly alter rates for many or all of its policyholders. Specifically, a preliminary estimate of the bill's effect on MAIF premium rates by region is illustrated in **Exhibit 1**. Other insurers in the State may have a similar experience.

Exhibit 1
Estimated Effect on Maryland Automobile Insurance Fund Premium Rates
By Region

<u>Region</u>	<u>Average Change</u> <u>in Premiums</u>	<u>% Average Change</u> <u>in Premiums</u>
Baltimore Metropolitan Area	- \$1,142	- 42.5%
Northern Maryland	- \$238	- 11.9%
Eastern Shore	+ \$665	+ 62.5%
Southern Maryland and Anne Arundel County	+ \$127	+ 7.8%
Western Maryland	+ \$439	+ 31.3%
Montgomery and Howard Counties	+ \$190	+ 13.0%
Prince George's County	+ \$55	+ 3.6%
Statewide	\$0	0.0%

Source: Maryland Automobile Insurance Fund

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 26, 2019
mm/jc

Analysis by: Richard L. Duncan

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