

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 436
Economic Matters

(Delegate Wells)

Finance

Motor Vehicle Insurance - Use of Credit History Rating Policy

This bill requires a private passenger motor vehicle insurer that uses credit information, on written request from an applicant or insured, to provide reasonable exceptions to the insurer's rates, rating classifications, company or tier placement, or underwriting rules or guidelines when the applicant or insured has experienced specified events that directly influenced the applicant's or insured's credit information. The bill establishes related requirements, processes, and authorizations. The bill applies to all private passenger motor vehicle insurance policies issued, delivered, or renewed in the State on or after October 1, 2022.

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 2023. MIA review of additional filings may necessitate contractual support in FY 2023 only. General fund revenues may be affected, as discussed below.

Maryland Automobile Insurance Fund Effect: The bill does not directly affect Maryland Automobile Insurance Fund (MAIF) finances or operations; MAIF does not use an insured's or applicant's credit history to rate policies.

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

Small Business Effect: Minimal.

Analysis

Bill Summary: If an applicant or insured submits a request for an exception, an insurer, in its sole discretion, may (1) require the applicant or insured to provide reasonable written and independently verifiable documentation of the event; (2) require the applicant or insured to demonstrate that the event had direct and meaningful impact on the applicant's or insured's credit information; (3) require the request be made not more than 60 days from the date of application for insurance or the policy renewal; (4) grant an exception despite the applicant or insured not providing the initial request for an exception in writing; and (5) grant an exception where the applicant or insured asks for consideration of repeated events or the insurer has considered this event previously. Within 30 days after the insurer's receipt of sufficient documentation of an event, the insurer must inform the applicant or insured of the outcome of the request, as specified.

An insurer is not out of compliance with any law or regulation relating to underwriting, rating, or rate filing as a result of granting an exception under the bill. The insurer must provide to applicants and insureds notice that reasonable exceptions are available and information about how the applicant or insured may inquire further regarding the exceptions that are available.

Beginning July 1, 2023, and every six months thereafter, an insurer who has received a request for a reasonable exception within the immediately preceding six months must submit to MIA (1) the number of requests submitted; (2) the outcome of each request; (3) specified demographic information about the requests; and (4) the criteria used by the insurer to determine whether to approve or deny each request.

Current Law: "Credit history" means any written, oral, or other communication of any information by a consumer reporting agency 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.

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; an insurer that does so:

- may not use a factor on the applicant's credit history that occurred more than five years prior to issuing the new policy;
- must advise the applicant that credit history is used and, at the applicant's request, provide a premium quote that separately identifies the portion of the premium attributable to the applicant's credit history;

- may not use the absence of or inability to determine the applicant's credit history or the number of credit inquiries about the applicant's credit history as factors in the rating;
- must review the credit history of an insured whose premium was raised due to credit history at initial rating every two years or on request of the insured (and disclose this requirement to the applicant); and
- based on this periodic review, must adjust the premium to reflect any improvement in the insured's credit history.

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% based on the credit history.

Current law prohibits insurers, with respect to *homeowner's* insurance, from rating a risk based, in whole or in part, on the credit history of an applicant or insured in any manner.

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.

Total premiums collected by private passenger automobile insurers may be affected as the bill's required discounts are provided and/or insurers adjust their premiums to account for the changes. However, the direction and extent of any impact on general fund revenues through the premium tax cannot be reliably estimated without actual experience under the bill.

Additional Information

Prior Introductions: None.

Designated 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