HB 1159

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1159 (Delegate Wivell, *et al.*)
Economic Matters

Insurance - Property and Casualty Insurance - Minimum Acceptable Loss Ratio and Premium Refunds

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This bill establishes that the minimum acceptable property and casualty loss ratio during a policy year is 85% and requires property and casualty insurers to pay a rebate, as specified, to insureds for each policy year that the insurer's casualty and property loss ratio does not meet or exceed 85%. The Commissioner may adopt regulations to implement the bill.

Fiscal Summary

State Effect: The Maryland Insurance Administration (MIA) can handle enforcement of the bill using existing budgeted resources. State expenditures and revenues (all funds) related to property and casualty insurance policies may be affected, as discussed below. General fund revenues from the premium tax may increase, as discussed below.

Local Effect: Local expenditures and revenues related to property and casualty insurance policies may be affected, as discussed below.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: "Property and casualty loss ratio" means the insurer's incurred claims for the year divided by the insurer's premium revenue for the reporting year.

For each policy year, if an insurer's property and casualty loss ratio does not meet or exceed the minimum acceptable property and casualty loss ratio, the insurer must provide each insured a rebate equal to the product of:

- the total amount of premium revenue received by the insurer from the insured after (1) subtracting federal and State taxes and licensing and regulatory fees and (2) accounting for payments or receipts for risk adjustment and reinsurance; and
- the difference between the minimum acceptable property and casualty loss ratio and the insurer's actual property and casualty loss ratio.

Current Law: MIA and the Insurance Commissioner's statutory and regulatory duties include, among other things, certifying insurers to operate in the State, reviewing and approving the rates and forms used by insurers, and licensing and certifying insurance professionals. MIA and the Commissioner have broad authority to enforce the requirements and prohibitions that apply to insurers and insurance professionals. For example, depending on the type of violation and following the administrative processes required by Insurance Law and regulations, the Commissioner is authorized to issue orders directing insurers or insurance professionals to take certain actions, impose administrative penalties, and suspend or revoke certifications and/or licenses.

While MIA enforces laws that establish minimum surplus requirements for property and casualty insurers, these insurers currently have discretion as to how much additional surplus they wish to carry.

State/Local/Small Business Fiscal Effect:

Property and Casualty Insurance

Nearly every individual and business entity in the State (including the State itself, local governments, and small businesses) have one or more property and casualty insurance policies. These policies include, among many others and just to name a few, automobile insurance, homeowner's insurance, commercial property insurance, and workers' compensation insurance. While the bill could increase revenues for these individuals and business entities, due to the required rebates, the bill could also increase insurance costs (likely through increased premiums) for these individuals and entities. However, whether the increase in insurance costs would offset any rebate revenues, and the magnitude of these impacts, cannot be reliably estimated without actual experience under the bill.

Specifically, MIA advises that the bill could result in fewer property and casualty insurance options and, consequently, higher property and casualty insurance costs for Maryland consumers. MIA advises the bill may cause property and casualty insurers to stop writing certain lines of business in Maryland, or even leave the State altogether. According to MIA and among other factors, this is because the bill:

- may negatively impact the net worth of certain property and casualty insurance firms and limit those firms' ability to pay dividends to shareholders or policy holders;
- hampers insurers' ability to plan for future losses and catastrophic events, since insurers generally build surplus to ensure they can pay out claims without risking their financial stability in the event of future losses or catastrophic events; and
- does not make an exception for insurers that are in a hazardous financial condition or have suffered significant losses, as these insurers are most likely to be negatively affected by the bill's requirements.

Premium Tax

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.

As discussed above, the bill could increase premium rates for Maryland consumers for their property and casualty insurance policies. To the extent any such increase in premiums takes place, general fund revenues increase accordingly.

Additional Comments: MIA advises that, unlike health benefit plans which pay out for claims in a particular year, property and casualty insurance policies are typically occurrence-based and pay out claims which resulted from occurrences that took place during the applicable policy year. Some policies have a "long tail," which means that claims can be made on the policy for many years. Workers' compensation insurance is a common example of long-tail insurance. Long-tail insurers tend to (and should, according to MIA) have a higher surplus compared to other types of property and casualty insurers. This is because it is more difficult to accurately estimate potential losses for long-tail lines of business, resulting in greater variability of losses.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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