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Date:	**February 26, 2025**
Bill # / Title:	**House Bill 1159 - Insurance - Property and Casualty Insurance - Minimum Acceptable Loss Ratio and Premium Refunds**
Committee:	**House Economic Matters Committee**
Position:	**Letter of Information**

The Maryland Insurance Administration (MIA) appreciates the opportunity to provide information regarding House Bill 1159.

The bill would add a new section to Title 19, Subtitle 1 of the Insurance Article that establishes a minimum acceptable loss ratio of 85% for a property and casualty (P&C) insurer, and requires a P&C insurer to issue a certain rebate to its insureds if its loss ratio for the reporting year is less than 85%. The bill explains that a P&C insurer's loss ratio is calculated as: incurred claims ÷ premium revenue. The bill further explains that the rebate due to an insured is calculated as: (85% - actual loss ratio) x (total premium revenue received from the insured - taxes, licensing fees, regulatory fees, payments for risk adjustment, and payments for reinsurance).

The MIA enforces laws that establish minimum surplus requirements for P&C insurers. However, these insurers have discretion under current law as to how much additional surplus they wish to carry. One reason that an insurer may build additional surplus is to ensure its ability to pay out claims without risking its financial stability if it experiences significant future losses or a catastrophic event. By requiring a minimum loss-ratio of 85% each year, the bill could hamper P&C insurers' ability to plan for future losses and catastrophic events.

Unlike health benefit plans, which pay out for claims in a particular year, P&C 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 what is called 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 have a higher surplus compared to other types of P&C 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.

Finally, the following factors may be relevant to the committee's consideration of the bill:

- Certain lines of P&C insurance are less profitable than others;
- The bill makes no exception for insurers that are in a hazardous financial condition or have suffered significant losses;
- The bill may have adverse impacts on the net worth of P&C insurers; and
- The bill may limit P&C insurers' ability to pay dividends to shareholders (or to policyholders, in the case of mutual insurance companies).

Thank you for the opportunity to provide this letter of information. The MIA is available to provide additional information and assistance to the committee.