

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 866
Finance

(Senator Della)

Motor Vehicle Insurance - Use of Credit History in Rating Policies

This bill prohibits an insurer, with respect to private passenger motor vehicle insurance, from rating a risk based in whole or in part on the credit history of an applicant or insured in any manner, including • the provision or removal of a discount; • assigning the insured or applicant to a rating tier; or • placing an insured or applicant with an affiliated company. The bill repeals current statutory provisions that permit an insurer to use the credit history of an applicant to rate a new policy of private passenger motor vehicle insurance.

Fiscal Summary

State Effect: Special fund revenues from the \$125 filing fee collected by the Maryland Insurance Administration could increase in FY 2009 to the extent that insurers are required to update forms. The number of these filings cannot be accurately estimated but is likely to be minimal. Expenditures would not be affected.

Maryland Automobile Insurance Fund: The bill would not directly affect MAIF finances or operation because MAIF does not use credit history to rate policies.

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

Small Business Effect: Potential minimal.

Analysis

Current Law: With respect to private passenger motor vehicle insurance, an insurer may not • refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or in part, on the credit history of the insured or applicant; or • require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant. An insurer may, however, use the credit history of an applicant to rate a new policy of private passenger motor vehicle insurance. Such rating includes • the provision or removal of a discount; • assigning the applicant to a rating tier; or • placing an applicant with an affiliated company. An insurer that rates a new policy based, in whole or in part, on the credit history of the applicant • may not use a factor on the credit history of the applicant that occurred more than five years prior to the issuance of the new policy; • is required to advise an applicant at the time of application that credit history is used; and • is required to, on request of the applicant, provide a premium quotation that separately identifies the portion of the premium attributable to the applicant's credit history. In addition, the insurer may not use specific factors in rating the policy, including • the absence of credit history or the inability to determine the applicant's credit history; or • the number of credit inquiries about an applicant's credit history.

An insurer that rates a new policy based on the credit history of the applicant has to review the credit history of an insured who was adversely impacted by the use of the insured's credit history at the initial rating of the policy every two years or on request of the insured. The insurer is required to adjust the premium of an insured whose credit history was reviewed to reflect any improvement in the insured's credit history.

An insurer that rates a new policy based on the credit history of the applicant may, if actuarially justified, provide a discount of up to 40% or impose a surcharge of up to 40%.

Background: 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. The bill's provisions would extend the same protections to private passenger motor vehicle insurance rating.

Additional Information

Prior Introductions: None.

Cross File: HB 1459 (Delegate Krysiak, *et al.*) – Economic Matters.

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

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