

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 665
Finance

(Senator Garagiola, *et al.*)

Vehicle Laws - Required Security - Increase in Minimum Amounts

This bill increases the minimum security required on a motor vehicle liability insurance policy for bodily injury or death of a single individual from \$20,000 to \$30,000, and for more than one individual from \$40,000 to \$60,000.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund revenues increase from an increase in collection of premium taxes, including taxes from the Maryland Automobile Insurance Fund (MAIF). Special fund revenues for the Maryland Insurance Administration (MIA) may increase by about \$31,300 in FY 2010 only from rate and form filing fees. Potential additional increase in special and general fund revenues from lapsed required security penalties.

Maryland Automobile Insurance Fund Effect: MAIF nonbudgeted revenues may increase due to increased premiums by approximately \$8.1 million annually. MAIF nonbudgeted expenditures increase to pay additional premium taxes annually and for one-time-only computer reprogramming costs.

Local Effect: Minimal increase in motor vehicle liability insurance costs for local governments that purchase liability insurance at the minimum level.

Small Business Effect: Potential minimal.

Analysis

Current Law: The minimum security required on a motor vehicle liability insurance policy for the bodily injury or death of a single individual is \$20,000. The minimum security required increases to \$40,000 for the bodily injury or death of more than one individual. The minimum security required for property damage is \$15,000, in addition to interest and costs.

Background: While limited data is available concerning the private insurance industry, MAIF advises that 97% of all claims are currently settled within the existing policy limits of \$20,000 for bodily injury or death of a single individual and \$40,000 for the bodily injury or death of more than one individual. According to MAIF, 98.2% of its policyholders have selected this minimum liability coverage. MAIF offers increased limits coverage to those policyholders who desire it at \$25,000/\$50,000; \$50,000/\$100,000; and \$100,000/\$300,000. However, MAIF's experience does not accurately reflect the choices of the policyholders in the private insurance market because MAIF policyholders are, by definition, those who are unable to afford insurance from the private market.

State Revenues: General fund revenues increase from the 2% insurance premium tax. However, neither MIA nor MAIF was able to estimate how large the increase in premium tax revenues would be for the general fund. As noted above, information as to what percentage of private passenger auto insurance holders carry only the minimum liability insurance is not available. Thus, although this increase in insurance premium taxes collected produces the greatest share of the bill's fiscal impact, a reliable estimate cannot be made at this time. However, the insurance premium tax MAIF pays is discussed below.

Special fund revenues for MIA may increase by about \$31,250 in fiscal 2010 assuming that about 250 motor vehicle insurers pay the \$125 rate filing fee to comply with the increased bodily injury rates minimum coverage.

Higher insurance costs may discourage some people from maintaining auto insurance. Therefore, penalty revenues for failure to maintain the required minimum security (liability insurance) may increase; however, the magnitude of any such increase cannot be reliably estimated. Nevertheless, the penalty revenues are distributed among various special funds and the general fund.

State Expenditures: The Motor Vehicle Administration (MVA) advises that it incurs some costs to revise forms. Legislative Services advises that MVA must revise its forms annually; therefore, this requirement can be handled with existing resources.

MAIF Effect: MAIF estimates that the bill affects approximately 98.2% of its insureds. MAIF further estimates that an increase in the mandatory bodily injury liability limit may result in increased premium revenues of approximately \$8.1 million beginning in fiscal 2010. Payment of premium taxes by MAIF may, therefore, increase by \$162,000 beginning in fiscal 2010. Additionally, MAIF advises that computer reprogramming may cost at least \$93,000 in fiscal 2010 to revise its electronic/rating system. **Exhibit 1** shows the estimated impact of the increased limits by territory in the State.

Exhibit 1
Impact of Proposed Increased Limits on MAIF Territories

<u>Territories</u>	<u>20/40</u>	<u>30/60</u>	<u>Percent Change</u>
Baltimore City	1,775	1,975	11.3%
Baltimore Inner	1,321	1,459	10.4%
Montgomery County Outer	873	947	8.5%
Prince George's County Outer	908	994	9.5%
Baltimore Outer	1,198	1,332	10.4%
Montgomery County Inner	1,100	1,206	9.6%
Prince George's County Inner	1,036	1,143	10.3%
Lower Eastern Shore	573	615	8.0%
Remainder	811	881	8.6%

Additional Information

Prior Introductions: Two nearly identical bills, HB 1295 of 2008 and HB 398 of 2007, received unfavorable reports from the House Economic Matters Committee.

Cross File: None.

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

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