

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 825

(Delegate Barkley, *et al.*)

Economic Matters

Finance and Judicial Proceedings

Vehicle Laws - Required Security - 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 January 1, 2011, and applies to all vehicle liability insurance policies issued, delivered, or renewed in the State on or after that date.

Fiscal Summary

State Effect: General fund revenues increase significantly 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 \$25,000 in FY 2011 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 \$4.1 million in FY 2011 and \$8.1 million annually thereafter. 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 99% 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. 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, according to MAIF, 98.6% of its policyholders have selected the minimum \$20,000/\$40,000 liability coverage. Legislative Services advises that 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 of general fund revenues cannot be made at this time.

Special fund revenues for MIA may increase by about \$25,000 in fiscal 2011, assuming that about 200 motor vehicle insurers pay the \$125 rate filing fee to comply with the increased bodily injury rates minimum coverage.

Finally, 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 may incur 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 98.6% of its insureds. MAIF further estimates that an increase in the mandatory bodily injury liability limit may result in increased premium revenues of approximately \$4.1 million in fiscal 2011 and \$8.1 million annually thereafter. Payment of premium taxes by MAIF may, therefore, increase by \$81,000 in fiscal 2011 and \$162,000 annually thereafter. Additionally, MAIF advises that computer reprogramming may cost at least \$93,000 in fiscal 2011 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	\$1,861	\$2,035	9.3%
Baltimore Inner	1,413	1,530	8.3%
Montgomery County Outer	933	996	6.8%
Prince George's County Outer	963	1,036	7.6%
Baltimore Outer	1,259	1,362	8.2%
Montgomery County Inner	1,161	1,249	7.6%
Prince George's County Inner	1,089	1,178	8.2%
Lower Eastern Shore	625	663	6.1%
Remainder	876	935	6.7%

Source: Maryland Automobile Insurance Fund

Additional Information

Prior Introductions: HB 1205 of 2009 received an unfavorable report from the House Economic Matters Committee. HB 1295 of 2008 received an unfavorable report from the House Economic Matters Committee. HB 397 of 2007 received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Maryland Department of Transportation, Comptroller's Office, National Association of Insurance Commissioners, Department of Legislative Services

Fiscal Note History: First Reader - February 21, 2010
mlm/ljm Revised - House Third Reader - March 24, 2010

Analysis by: Evan M. Isaacson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510