

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 906
Economic Matters

(Delegate Hornberger, *et al.*)

Insurance - Waiver of Personal Injury Protection

This bill requires any waiver or rejection of personal injury protection (PIP) coverage under a private passenger motor vehicle insurance policy to include a manual signature physically marked by the first named insured. An insured must make an affirmative written waiver or rejection of PIP benefits, including the manual signature, at the time of application for a policy or any renewal or change to a policy (instead of only at the time of application). As a result, a policyholder that rejects PIP coverage may continue to reject the coverage at the first renewal of the policy and beyond, regardless of the circumstances surrounding the policy renewal. The bill also exempts the written waivers from specified provisions of the Commercial Law Article regarding electronic signatures.

Fiscal Summary

State Effect: General fund revenues likely increase minimally from premium tax revenues. State expenditures are not materially affected.

Maryland Automobile Insurance Fund (MAIF) Effect: MAIF nonbudgeted expenditures increase by \$20,000 in FY 2020 only for one-time programming costs. MAIF's nonbudgeted revenues and expenditures are likely affected as policyholders either purchase full PIP benefits or cancel their policies as a result of the bill, as discussed below.

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

Small Business Effect: Minimal.

Analysis

Current Law/Background:

Required Security

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to \$15,000;
- unless waived or exempt under [Chapters 425 and 426 of 2016](#), for PIP coverage of \$2,500 per person; and
- for uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

Personal Injury Protection

PIP is no-fault coverage that provides a minimum limit of \$2,500 coverage for payment of reasonable and necessary medical, hospital, and disability expenses that arise from an accident, 85% of lost income, and reimbursement for essential services for care and maintenance of the family or family household. In order to waive or be exempt from PIP, an applicant must make an affirmative written waiver of the benefits.

If *waived*, PIP coverage does not apply for the first named insured, each other named insured, each listed driver, and each member of the first named insured's family who is age 16 or older and resides in the first named insured's household; however, the coverage still applies for others that may be involved in an accident with the insured (for example, a pedestrian). An applicant's waiver of PIP coverage is effective until the waiver is withdrawn in writing.

If an applicant is eligible to be exempt and chooses to *reject* PIP (under Chapters 425 and 426 of 2016), the insured has no PIP coverage whatsoever. An applicant for a motor vehicle liability insurance policy is exempt from the requirement to obtain PIP coverage only in limited circumstances that relate to the applicant's history of acquiring and maintaining private passenger automobile insurance. An applicant's *rejection* of PIP coverage is effective until the end of the policy's term, at which point it is upgraded in a specified

manner. MAIF *must* offer an applicant the option to reject PIP, but all other insurers *may* do so.

Chapters 425 and 426 also established the process by which an applicant must reject PIP coverage if he or she chooses to do so. An eligible applicant must choose, in writing and on the form the Insurance Commissioner requires, whether to obtain full PIP coverage, limited PIP coverage (via the existing waiver process), or no PIP coverage (via the rejection process established by Chapters 425 and 426). The form must describe the costs and benefits of each option in a specified manner.

State Revenues: 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 generally accrue to the general fund.

Under the bill, if they do not want full PIP coverage, policyholders have to waive (or reject, if eligible to do so) those benefits at every renewal as well as at any change in coverage, not just one time at application (as currently allowed for waived coverage) and they must do so in writing. Therefore, more private passenger automobile insurance policyholders are likely to purchase *full* PIP benefits (which is more costly than waiving or rejecting the benefits), often inadvertently. Accordingly, general fund revenues increase, likely minimally, as additional premium taxes are paid for these premiums.

MAIF Fiscal Effect: MAIF advises that it uses electronic signatures for 95% of its private passenger automobile policies for application and PIP waiver and rejection forms. Many MAIF policies are finalized remotely by an insurance producer without the policyholder having to travel to the producer's office. MAIF further advises that, without a signed waiver, a person's policy defaults to full PIP coverage.

As a result, MAIF's operations and finances are likely to be affected, although the magnitude and direction of the effect depends on numerous factors and cannot be reliably estimated. Some of the potential effects are described below.

- The necessity for a manual signature may cause delays in policy issuance and other administrative burdens as MAIF determines the best manner in which to obtain signatures, which could reduce revenues and increase costs.
- Many of MAIF's policyholders are likely to get full PIP coverage, either by choice or by default, leading to increased premiums and corresponding revenues for MAIF.

- Some of MAIF's policyholders, who tend to be lower income individuals, may choose to cancel their insurance policies due to the additional cost, resulting in reduced revenues and increased expenditures as MAIF provides refunds.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration; Maryland Automobile Insurance Fund; Office of the Attorney General (Consumer Protection Division); Maryland Department of Transportation; Department of Legislative Services

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