



October 13, 2006

MARYLAND PASSES CANCELLATION AND NONRENEWAL NOTIFICATION LEGISLATION

BACKGROUND

The Maryland Insurance Administration (MIA) has passed legislation (House Bill 570) relating to Insurance Article changes and other wording clarifications concerning cancellation and nonrenewal notification to policyholders, applying to private passenger motor vehicle, homeowners, dwelling, credit loss, and commercial property and liability insurance. A summary of these Article revisions and wording clarifications are outlined below.

NOTIFICATION REQUIREMENTS

Section 12-106 - Under this Section of the Article, all new business written by an insurer will be subject to a 45-day “underwriting period” starting with the effective date of the coverage. If the risk does not meet the company’s underwriting standards, it may cancel the risk during this 45-day underwriting period. Any risk that does not meet the company’s underwriting standards would enable the carrier to cancel the binder by giving notice to the applicant. The Notice of Cancellation should specifically set forth the reason for canceling and must be sent within 45 days of the effective date of the coverage and cannot be effective less than 15 days after the mailing of the notice. Specific mailing requirements are provided in a bulletin to be issued by the MIA.

To comply with this Section, companies will be required to send out a “Notice of Underwriting Period” to the applicant or policyholder. This notice sets forth the necessary information to be provided to the applicant or policyholder at the time of application, or when the binder or policy is issued. A sample of notice wording is provided in the proposed bulletin.

Section 27-601 - This Section is intended to provide a clarification of specific commercial vs. personal activities of the insured. In general, homeowners’ insurance policies exclude Commercial activities of the insured. Mandatory offerings, however, must be made (as required by this Section) at the time a homeowner’s policy is issued which may require coverage for the insured’s commercial activities (e.g. family day care providers). The Department’s position is that any endorsements added to a homeowner’s insurance policy as required by law or that are incidental to the policy will be treated as personal insurance even if they provide coverage for commercial activities.

**NOTIFICATION
REQUIREMENTS
(Cont'd.)**

Section 27-602 - This Section has been revised to clarify that it applies only to Personal lines policies that have been in effect for more than 45 days and which the insurer proposes to cancel or nonrenew. In those instances a carrier's Notice of Cancellation or Nonrenewal must be sent by certificate of mail at least 45 days in advance of the proposed action and the insurer must maintain proof of mailing in a form authorized by the United States Postal Service. The proposed MIA bulletin contains additional conditions on mailing.

Section 27-603 - This section applies only to Commercial insurance policies (but not exempt commercial policies) that have been in effect for more than 45 days and which the insurer proposes to cancel or nonrenew. In those instances, a carrier's Notice of Cancellation or Nonrenewal must be sent at least 45 days in advance of the proposed action by either certificate of mail or a commercial mail delivery service. The insurer must maintain proof of mailing in a form authorized by the United States Postal Service. The Notice of Cancellation or Nonrenewal must advise the policyholder of the possibility of replacing coverage through a plan for which the insured may be eligible. If a policy contains more than one type of coverage, the notice shall contain the name, address and telephone number of all the appropriate plans that may apply. For example, if a policy has both automobile and property coverages, the Notice of Cancellation or Nonrenewal must advise the insured of the possibility of replacing the automobile coverage through the Maryland Automobile Insurance Fund and the homeowners coverage through the Maryland Property Insurance Availability Act.

If the insurer provides the insured the renewal policy and notice of premium due at least 45 days before the renewal date and the insured fails to make the required premium payment by the renewal date, the insurer shall send the insured a notice offering to reinstate the policy if the insured makes the required premium payment in not less than 10 days of the date of the notice. If the insured fails to make the required premium payment, the insurer may cancel the policy as of the renewal date.

**COMPANY
ACTION**

Companies that develop their own "Notice of Underwriting Period" notices, as referenced in Section 12-106 above, that deviate from the sample notice wording are required to file them with the Maryland Insurance Administration. MSO® is available to assist in the development of specific company notices. Companies must also review the certificate of mail requirements outlined in the proposed bulletin.

**EFFECTIVE
DATE**

January 1, 2007

AVAILABILITY

Companies can review the various Sections of the MIA's proposed bulletin, which include a sample of the "Notice of Underwriting Period" notice, by accessing the Department's website at <http://www.mdinsurance.state.md.us/documents/DraftBulletin-HB570-7-31-06.pdf>.

QUESTIONS

Contact Dennis Carrigan at (800) 935-6900 or e-mail dcarrigan@msonet.com.