

(b) how the nonprofit corporation receiving the assets of the Corporation anticipates utilizing the assets or has been utilizing the assets; and

(c) when the provisions of law regarding the phase-out and dissolution of the Corporation are no longer needed.

SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2002. Section 2 of this Act shall remain effective only through the date of the report in which the Commissioner of Financial Regulation advises that the phase-out and dissolution of the Credit Union Insurance Corporation and the transfer of the assets of the Corporation are completed and, at the end of that date, with no further action required by the General Assembly, Section 2 of this Act shall be abrogated and of no further force and effect.

May 15, 2002

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate
State House
Annapolis MD 21401

Dear Mr. President:

In accordance with Article II, Section 17 of the Maryland Constitution, I have today vetoed Senate Bill 807 – Homeowner’s Insurance – Perpetual Policies – Cancellation.

Senate Bill 807 would have authorized an insurer to cancel a “perpetual” homeowner’s insurance policy if the cancellation: (1) takes effect on the anniversary of the policy’s inception; (2) is not based on a claim that occurred more than three years before the anniversary date of the policy on which the proposed cancellation would take effect; and (3) is otherwise in accordance with other anti-discrimination insurance laws.

When an individual purchases a “perpetual” homeowner’s insurance policy, it is with the understanding that he/she will place a fixed sum of money on deposit with the insurance company in return for comprehensive insurance protection. Unlike other insurance policies, “perpetual” policies have no expiration or renewal date and require no annual premium. Consequently, a “perpetual” insurance policy is, by its very nature, an indefinite insurance policy.

An insurer should not be allowed to cancel a “perpetual” policy. An insurer who cancels a “perpetual” policy is in reality making a mid-policy cancellation, an action that is otherwise not allowed under State law. Proponents of Senate Bill 807 contend that insurance companies that issue “perpetual” policies should be allowed to cancel them when the policyholder has extraordinary losses. While I recognize that “perpetual” policies do carry a certain amount of risk to the insurer due to the insurer’s inability to increase the policyholder’s premium, this risk should be recognized at the time the contract is entered into with the policyholder and is offset by the ability of the insurer to earn investment income on the policyholder’s deposit.

Senate Bill 807 does contain provisions that an insurer must follow for canceling a “perpetual” policy. These provisions are not strong enough. If the State affirmatively