

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect October 1, 2002.

May 15, 2002

The Honorable Casper R. Taylor, Jr.
Speaker of the House
State House
Annapolis MD 21401

Dear Mr. Speaker:

In accordance with Article II, Section 17 of the Maryland Constitution, I have today vetoed House Bill 1236 - Homeowner's Insurance - Perpetual Policies - Cancellations.

House Bill 1236 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 House Bill 1236 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.

House Bill 1236 does contain provisions that an insurer must follow for canceling a "perpetual" policy. These provisions are not strong enough. If the State affirmatively allows the cancellation of "perpetual" homeowner's insurance policies, the cancellations should only apply to policies issued after the effective date of the bill. In addition, more stringent standards should be established for canceling a "perpetual" policy rather than just applying the same standards that currently govern annual or semi-annual insurance policies.

For the above reasons, I have vetoed House Bill 1236.

Sincerely,