



**2024 Report on Absence of Good Faith Cases Filed under
§ 27-1001 of the Maryland Insurance Article**

Insurance Article § 27-1001(h)

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Introduction

Section 27-1001 of the Insurance Article, which took effect on October 1, 2007, was passed by the General Assembly in connection with the passage of § 3-1701, Md. Code Ann., Cts. & Jud. Proc. (2020 Repl. Vol.). The purpose of these enactments was to establish a process through which a policyholder could seek the award of special damages in a civil coverage or breach of contract action where the insurer failed to act in good faith in denying all or part of a first-party property insurance claim. Before the insured may file an action seeking special damages pursuant to § 3-1701, the insured must first submit their complaint to the Maryland Insurance Administration (“Administration”) under § 27-1001, which requires the Insurance Commissioner to conduct an on-the-record review of such complaints. § 27-1001(h). These laws were amended by HB 990/Ch. 729 of the Acts of 2016 to apply the process to disability claims.

According to the legislative history of § 27-1001, the bill was designed to address the General Assembly’s concern that some insurance companies disregard their established legal obligations to adequately pay claims. “Testimony on [§ 27-1001] indicated that insurance companies often ‘lowball’ their offers to policyholders because there’s no incentive for them to offer the policy limits, even when damages exceed policy limits.” Sen. Jud. Proc. Comm., Floor Report, H.B. 425 & S.B. 389, p. 4 (Md. 2007). Section 3-1701 created a disincentive for insurers to engage in such conduct by permitting insureds to recover attorney’s fees and interest.

Overview of Section 27-1001

Section 3-1701 of the Cts. & Jud. Proc. Article authorizes the award of special damages to an insured in a civil coverage or breach of contract action if the insured demonstrates that the insurer failed to act in good faith in denying, in whole or in part, a first-party property insurance or disability insurance claim. However, before the insured may file an action seeking special damages under § 3-1701, the insured must first submit a complaint to the Administration under § 27-1001. Within ninety (90) days of the receipt of such a complaint, the Administration must render a decision on the complaint that determines:

1. Whether the insurer is required under the applicable policy to cover the underlying claim;
2. The amount the insured was entitled to receive from the insurer;
3. Whether the insurer breached its obligation to cover and pay the claim;
4. Whether an insurer that breached its obligation failed to act in good faith; and
5. If there was a breach and the insurer did not act in good faith, the amount of damages, expenses, litigation costs, and interest.

“Good faith” is defined in §27-1001(a) as “an informed judgment based on honesty and diligence supported by evidence the insurer knew or should have known at the time the insurer made a decision on a claim.” A plaintiff has the burden of proof and must meet this burden by a preponderance of the evidence. *See* Md. Code Ann., State Gov’t § 10-217 (2014 Repl. Vol.); *Md. Bd. Of Physicians v. Elliott*, 170 Md. App. 369, 435, *cert denied*, 396 Md. 12 (2006).

Analysis of Complaints Filed under § 27-1001

Section 27-1001(h) directs that this report to the General Assembly be based upon the prior fiscal year’s activity. This report contains information about the disposition of those complaints filed in fiscal year (FY) 2024 (July 1, 2023, through June 30, 2024).

A. Number of Complaints

In FY24 the Office of Hearings received and processed forty-three (43) complaints. In four (4) instances the complaint did not fall within the scope of § 27-1001 and the complaints were dismissed for lack of jurisdiction; therefore, a decision on the merits was not reached. *See Table 1.* Those four (4) cases involved three (3) homeowner matters and one (1) third party auto claim. Another fifteen (15) cases were settled or withdrawn, which included two (2) homeowner complaints, four (4) third-party claims, two (2) auto complaints, three (3) uninsured motorist complaints, one (1) personal catastrophe liability matter, and three (3) commercial property complaints.

Of the twenty-eight (28) remaining cases that were reviewed on the merits, the Administration found no breach of an obligation to pay or breach of an obligation to act in good faith. *See Table 1.*

Table 1 – § 27-1001 Complaints Filed with the Administration FY 2024

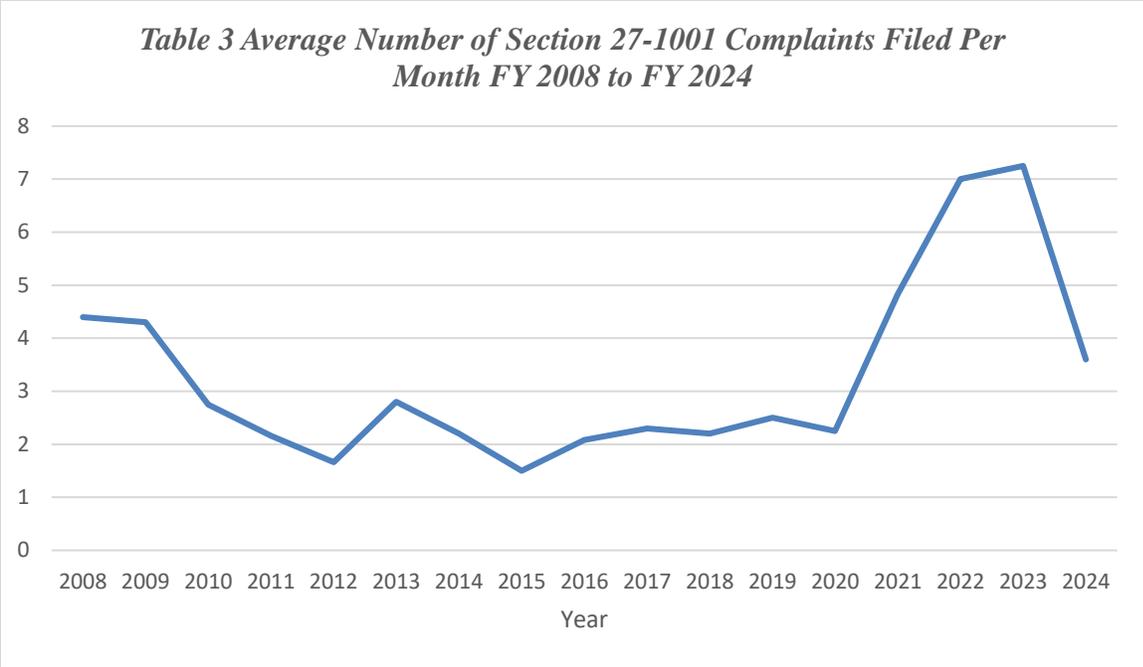
FY 2024			
	Number Filed	% of Filed	% of Reviewed
Settled, Withdrawn, or Dismissed	15	35%	N/A
Breach Found	0	0 %	0%
Breach of an obligation to pay only	0	0%	0%
Breach of an obligation to pay and obligation to act in good faith	0	0%	0%
No Breach Found	28	65%	100%
Total Reviewed	28	65%	100%
Total	43	100%	N/A

Table 2 – § 27-1001 Complaints Filed with the Administration FY 2020 to FY 2024

	FY 2020		FY 2021		FY 2022		FY 2023		FY 2024	
	#	%	#	%	#	%	#	%	#	%
Settled, Withdrawn, or Dismissed	9	32%	18	31%	25	22%	11	12.6%	15	35%
§27-1001 (absence of good faith) violation	1	4%	3	5%	0	0%	0	0%	0	0%
No Violation	18	64%	37	64%	59	69%	76	87.4%	28	65%
Breach of Obligation to Pay Only	0	0%	0	0%	1	1.17%	0	0%	0	0%
Total	28	100%	58	100%	85	100%	87	100%	43	100%

The number of complaints filed with the Administration decreased from FY 2023 to FY 2024 by 49%, eighty-seven (87) filings to forty-three (43).

In FY 2008, the first year following the effective date of section 27-1001, complaints were filed at an average rate of 4.4 per month. Since that time, the average number of complaints filed has fluctuated. In FY 2014 and FY 2015, the number fell to 2.2 and 1.5 complaints filed per month respectively. Complaints increased slightly in FY 2016 and FY 2017 to approximately 2 and 2.3 complaints filed per month respectively, but in FY 2018 the number of complaints filed decreased slightly to 2.2 per month. In FY 2019 the number of complaints filed increased to 2.5 complaints per month but decreased slightly in FY 2020 to 2.33 per month. In FY 2021, the average rate of complaints filed per month increased significantly to 4.8 complaints per month. In FY 2022, the number of complaints increased sharply to approximately 7 per month. For FY 2023, the number of complaints continued to be approximately 7.25 per month. However, the number of complaints per month fell sharply in FY24 to 3.6 per month. *See Table 3 on the next page.*



B. Types of Complaints

Of the forty-three (43) complaints filed, twenty-eight (28) were reviewed on the merits and the Administration made a determination of no failure to act in good faith. A decision on the merits was not reached on fifteen (15) of the forty-three (43) complaints filed because they were settled, withdrawn, or dismissed for reasons discussed in Section A above. Of the forty-three (43) complaints filed, nineteen (19) involved uninsured motorist claims, eight (8) involved homeowner’s insurance claims, five (5) involved third party liability, five (5) involved commercial property, three (3) involved auto/property damage claims, two (2) involved rental claims, and one (1) involved personal catastrophe coverage.

Table 4 – § 27-1001 Complaints Filed in FY 2024 by Type of Insurance

	Number	Percentage of Total Complaints Filed
Total Complaints Filed	43	100%
Complaints Reviewed on the Merits	28	65%
Auto- Uninsured Motorist	19	44%
Homeowners	8	13%
Third Party Liability	5	12%
Commercial Property	5	12%
Auto- Property Damage	3	6.9%
Rental	2	4.6%
Personal Catastrophe	1	2.3%

C. Complaints in which the Administration Found an Absence of Good Faith

Of the forty-three (43) complaints reviewed on the merits in FY 2024, the Administration determined there were no instances in which the insurer had breached its claim payment obligation or any instances where the Plaintiff was entitled to additional claim compensation. For FY 2024, there were no instances where the Administration found that an insurer had breached its obligation to act in good faith in handling a claim.

D. Judicial Review of the § 27-1001 Decisions

In FY 2024, there were seven (7) appeals filed by aggrieved parties. Three (3) appeals were appealed to the Office of Administrative Hearings (OAH). One (1) matter was withdrawn, one (1) settled, and one (1) is still pending. Two (2) cases were appealed to the Circuit Court for Baltimore City. Of the two (2) Baltimore City appeals, one (1) was dismissed and one is still pending. One (1) was appealed to the Circuit Court for Anne Arundel County and is still pending. One (1) case was appealed to the Montgomery County Circuit Court and was stayed.

Table 4 – Appeals of § 27-1001 Decisions Filed in FY 2024

	Appeals to OAH	Appeals to Circuit Court
Dismissed / Settled / Withdrawn	2	2
Affirmed Administration	0	0
Reversed Administration	0	0
Appeals Pending	1	2
Total	3	4

E. Regulatory Enforcement Action

The Administration tracks and reviews the data from § 27-1001 complaints to identify regulatory trends or problems. During FY 2024, none of the complaints required a referral to another MIA Unit for additional regulatory investigation and enforcement actions for unfair claim settlement practices. Section 27-1001(h)(3).

Conclusion

The Administration has successfully implemented § 27-1001 and continues to process complaints in a timely manner. Section 27-1001 provides policyholders with an impartial review of their disputed claim(s) and can provide policyholders with a valuable tool to assist them in resolving disputes with insurers without incurring the expense of judicial action.