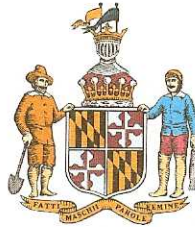


ROBERT L. EHRLICH, JR.  
GOVERNOR

MICHAEL S. STEELE  
LIEUTENANT GOVERNOR



STEVEN B. LARSEN  
COMMISSIONER

DONNA B. IMHOFF  
DEPUTY COMMISSIONER

ALEXANDRA THOMAS  
ASSOCIATE COMMISSIONER  
OF POLICY

STATE OF MARYLAND  
MARYLAND INSURANCE ADMINISTRATION  
525 St. Paul Place, Baltimore, Maryland 21202-2272  
Writer's Direct Dial: 410-468-2022  
Facsimile Number: 410-468-2020  
e-mail: athomas@mdinsurance.state.md.us

March 5, 2003

Mr. Dan Risley  
Executive Director  
Society of Collision Repair Specialists  
P.O. Box 2548  
Tri-Cities, Washington 99302-2548

Re: Arbitrary Paint Capping -  
Your January 31, 2003 Survey

Dear Mr. Risley:


On behalf of Commissioner Larsen, I am responding to the January 31, 2003 letter to him from the Society of Collision Repair Specialists. In that letter, you requested a written response from the Maryland Insurance Administration on the legality of "paint capping" in Maryland. As you stated in your letter, "paint capping" is the practice of insurance companies instituting a limit on the amount of money they reimburse for paint and materials, on an estimate in connection with a claim for the repair of a vehicle – without consideration as to the actual repair cost for that claim.

The MIA addressed this issue in June 1998 and in May 2002 (see enclosures), and our position on this issue remains consistent. Maryland law does not prohibit insurance companies from establishing and using guidelines for controlling their costs associated with painting and repairing vehicles, as long as the guidelines or methodology used is not arbitrary or capricious. Maryland law specifically states that it is a violation for an insurer to refuse to pay a claim for an arbitrary or capricious reason based on all available information. See § 27-303(2), Insurance Article. In other words, unless an insurer's methodology for calculating its cap is arbitrary and capricious, the insurer has not violated Maryland law.

Mr. Dan Risley  
March 5, 2003  
Page Two

This "arbitrary and capricious" standard for a violation of the Maryland law applies to the scenarios set forth in your letter of January 31, 2003. Hopefully, this information will be of benefit to your research. I would appreciate receiving a copy of the portion of your report that addresses Maryland once you have finalized the results.

Sincerely,

A handwritten signature in blue ink that reads "Alex Thomas". The signature is written in a cursive, flowing style.

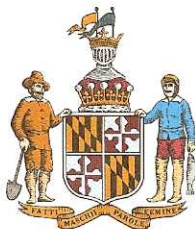
Alexandra Thomas  
Associate Commissioner of Policy

Enclosures

cc: Steven B. Larsen, Insurance Commissioner  
Donna B. Imhoff, Deputy Commissioner, MIA  
Dave Diehl, Chief Administrator,  
Property and Casualty, MIA

PARRIS N. GLENDENING  
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May 10, 2002

Dan Risley, Executive Director SCRS  
**Society of Collision Repair Specialists**  
P. O. Box 2548  
Tri-Cities, Washington 99302-2548

Dear Mr. Risley:

Thank you for your April 2<sup>nd</sup> letter to Commissioner Larsen regarding the Maryland Insurance Administration's ("MIA") position on the methodologies insurance companies use to calculate the amount of money they reimburse for paint and materials on automobile repair estimates.

The MIA addressed this issue in 1998. At that time, meetings were held with members of the Washington Coalition of Body Shops, owners of Maryland body shops and representatives from the insurance industry to discuss this matter. As a result of those meetings and other research performed by the MIA, it became apparent that insurers used various methodologies in their calculation of reimbursement. It was also noted that, on a national level, discussions were being held by the Collision Industry Conference in an attempt to develop a new system for the calculation of reimbursement.

The Commissioner stated at those meetings that there was no statutory authority for intervention on the part of the MIA. That position has not changed.

I trust this information has been helpful and if you have additional questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in dark ink that reads "Dave Diehl". The signature is written in a cursive style with a large, prominent "D" and "d".

Dave Diehl, ARM, AAI, AAM  
Chief Administrator  
Property & Casualty  
Maryland Insurance Administration

DD/gh