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FISCAL AND POLICY NOTE
First Reader

House Bill 1514
Economic Matters

(Delegate Brooks, *et al.*)

Baltimore City and Baltimore County - Low-Cost Automobile Insurance
Program

This bill establishes the Low-Cost Automobile Insurance Program (LAIP) to offer low-cost automobile insurance policies to residents of Baltimore City and Baltimore County. The program must be developed by the Maryland Automobile Insurance Fund (MAIF) in consultation with the Maryland Insurance Administration (MIA). All private passenger policyholders in the State must pay an annual fee of \$0.10 per insured vehicle to support public awareness efforts related to LAIP, as specified.

Fiscal Summary

State Effect: General fund revenues are likely affected beginning in FY 2019 due to the premium tax; however, the direction and magnitude of the effect cannot be reliably estimated. Other funds that receive uninsured motorist penalty revenues may also be affected, as discussed below. State expenditures are not materially affected.

MAIF Effect: Overall, nonbudgeted revenues and expenditures likely decrease as *existing* MAIF policyholders obtain LAIP coverage instead. However, nonbudgeted revenues increase by at least \$480,000 annually beginning in FY 2019 due to the outreach fee; related expenditures are discretionary. Nonbudgeted expenditures further increase by *at least* \$330,000 in FY 2019 for programming costs related to LAIP. Additional personnel are likely necessary to implement the program; thus, nonbudgeted expenditures may increase by a much greater amount and on an ongoing basis, as discussed below.

Local Effect: The bill does not affect local governmental operations or finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: LAIP's purpose is to offer low-cost automobile insurance policies to residents of Baltimore City and Baltimore County. LAIP is part of MAIF and must be administered in the same manner as MAIF. MAIF's board of trustees, in consultation with MIA, must adopt regulations to establish and administer LAIP.

Eligibility for the Program

To be eligible for a policy, an individual must meet specified requirements relating to residence, income, age, and driving record. The eligibility of an applicant must be certified at a time and in a manner approved by LAIP. As soon as practicable, LAIP must allow an applicant to demonstrate eligibility and purchase a policy through the Internet.

LAIP may (1) reject an application if the applicant owes the program an unpaid premium on an expired or canceled policy; (2) cancel a policy at any time for nonpayment of a premium – after at least 10 days' notice of nonpayment; (3) reject an application or cancel a policy if the applicant or insured's driver's license is found to be suspended or revoked; or (4) cancel a policy at any time if the insured fails to meet the eligibility requirements at any time. If LAIP rejects a policy due to unpaid premiums, it must notify the applicant. If the applicant pays the unpaid premiums, LAIP may not reject the applicant if he or she is otherwise eligible.

Each policy issued by LAIP may provide coverage only for an automobile valued at \$10,000 or less at the time of purchase, as evidenced by the value given to the automobile by the Motor Vehicle Administration (MVA) in assessing vehicle license fees.

Program Coverage Requirements

The bill generally establishes that a low-cost policy issued by LAIP must contain the minimum coverages required for all other automobile insurance, except that each policy may provide *only* for:

- the payment of claims for bodily injury or death arising from an accident of up to \$15,000 for any one person and up to \$30,000 for any two or more persons, in addition to interest and costs; and
- the payment of claims for property of others damaged or destroyed in an accident of up to \$7,500, in addition to interest and costs.

Even so, the bill establishes that a low-cost policy issued by LAIP satisfies the minimum security required. Additionally, LAIP must offer an applicant who purchases a policy the

option to purchase additional uninsured/underinsured motorist coverage or personal injury protection coverage.

Program Premiums

MAIF's executive director must determine premiums for LAIP's policies, subject to the approval of the Insurance Commissioner. Rates charged for policies issued by LAIP must be adequate to cover losses incurred for claims filed under the policy and other specified program expenses. The Commissioner must assess LAIP's loss reserves in a specified manner.

LAIP is authorized to charge a different premium to policyholders for drivers who are younger than age 25; however, the premium may be no more than 25% higher than the premium charged for drivers who are age 25 or older. This is the only rating factor that may be used by LAIP to determine the premiums for its policies. LAIP must annually file its proposed rates with MIA and may not use them until they are approved by the Commissioner. Before taking action on LAIP's proposed rates, MIA must hold a public hearing to review the rates.

LAIP may only issue 12-month policies, and the program may accept premiums as paid in full or on an installment basis if specified conditions are met. LAIP policies may not be financed under a premium finance agreement.

Other Provisions

All private passenger policyholders in the State must pay an annual fee of \$0.10 per insured vehicle to support LAIP's marketing, outreach, and other public education efforts required to raise public awareness of the program. The Insurance Commissioner must annually review LAIP's public awareness expenditures.

The bill authorizes a MAIF insurance producer to bind coverage in MAIF for an applicant to LAIP if the applicant submits an application and pays the required premium. A MAIF producer must provide notice to an applicant for a LAIP policy about the policy's limitations.

Current Law/Background:

Required Security

Maryland law requires an owner of a motor vehicle that is required to be registered in the State to maintain insurance for the vehicle during the registration period. MVA advises

that there are approximately 4.8 million registered and insured vehicles in the State. The security required must provide at least the payment of claims:

- for bodily injury or death arising from an accident of up to \$30,000 for any one person and up to \$60,000 for any two or more persons;
- for property of others damaged or destroyed in an accident of up to \$15,000;
- unless waived or exempt by Chapters 425 and 426 of 2016, for personal injury protection of \$2,500 per person; and
- for uninsured motorist coverage (unless waived, the amount equals the amount of liability coverage provided under the policy; if waived, the amount equals the minimum required insurance for liability coverage).

Automobile liability insurance coverage is mandatory in 49 states and the District of Columbia; however, the minimum security required varies from state to state. Only New Hampshire does not have compulsory automobile insurance liability laws; however, its laws require financial responsibility (*i.e.*, sufficient assets to pay claims against the motorist if the motorist causes an accident and does not have automobile insurance) to operate a vehicle.

MAIF – Insured Division

Created by the General Assembly in 1972, MAIF is an independent nonbudgeted State agency. Through its Insured Division, MAIF provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. MAIF is not in direct competition with the private insurance industry. In other states, private insurance companies share in insuring those unable to obtain insurance (known as the residual market) through an assigned risk plan in their respective states. The residual market for personal automobile insurance is the “market of last resort” for drivers who are unable to find coverage in the voluntary market. Maryland is the only state that has a state plan. Most states have an automobile assigned risk plan. MAIF must issue a policy for motor vehicle liability insurance if an applicant:

- pays a premium and (1) owns a covered vehicle registered with MVA; (2) has a license issued by MVA to drive a covered vehicle; or (3) is a lessee under a “lease not intended as security” as defined by Maryland law;
- does not owe MAIF an unpaid premium (with respect to a policy that has expired or been canceled) or a claim payment obtained by fraud;
- has made at least two good faith efforts to obtain a policy from two other insurers in a specified manner or has had a policy canceled or nonrenewed by an insurer for a reason other than nonpayment of a premium; and

- meets one of the following residency requirements: the person must (1) be domiciled in the State; (2) own, lease, or rent a primary place of residence in the State and, regardless of the person's domicile, reside in the State for more than one year; (3) maintain a main or branch office or warehouse facility in the State, and base and operate motor vehicles intrastate in the State; (4) have filed as a State resident for income tax purposes; or (5) have a nonresident permit.

MAIF – Uninsured Division

MAIF's Uninsured Division is available to qualified Maryland citizens involved in accidents with an uninsured vehicle. To be eligible, Maryland residents must have no other form of collectible insurance. For example, a pedestrian, struck by an uninsured vehicle, who does not own a vehicle and has no other collectible household coverage would be eligible to collect from the Uninsured Division. The Uninsured Division is funded through a portion of the uninsured motorist penalty fines issued by MVA. Penalty fines are distributed to the Transportation Trust Fund, Department of State Police, MAIF's Uninsured Division, and the general fund based on a specified formula.

State Revenues: General fund revenues decrease beginning in fiscal 2019 to the extent existing MAIF policyholders purchase coverage through LAIP instead, due to the reduced premium cost; however, the precise impact cannot be reliably estimated at this time.

Based on the policies it issued in Baltimore City and Baltimore County in 2017, MAIF estimates approximately 5,500 policyholders may be eligible to participate in LAIP. The average annual premium for a liability-only MAIF policy for policyholders who reside in Baltimore City or Baltimore County is \$3,060. MAIF further estimates that the average cost of a policy under LAIP is likely to be \$998 less, at an average cost of \$2,062. *For illustrative purposes only*, if half (2,750) of these policyholders qualify for and purchase insurance under LAIP, then MAIF collects \$2.7 million less in premiums each year. Therefore, general fund revenues derived from the premium tax decrease by about \$55,000.

MAIF Fiscal Effect:

Program Administration

Nonbudgeted revenues decrease in fiscal 2019 and subsequent years to reflect the decrease in premiums paid by current MAIF policyholders that obtain LAIP coverage. The amount and magnitude of the decrease cannot be reliably estimated due to limited information regarding how many policyholders would choose to purchase a LAIP policy instead of a MAIF policy. *For illustrative purposes only*, using the example above, if half (2,750) of the policyholders qualify for and purchase insurance through LAIP, then MAIF's

nonbudgeted revenues decrease by \$2.7 million annually. MAIF expenditures decrease correspondingly due to the reduced liability on the policies.

MAIF advises that the bill may require the establishment of an additional business unit to administer the program. Specifically, the extensive eligibility requirements for LAIP are likely to require MAIF to work with numerous other government agencies and perform its own investigations for each applicant. To the extent that establishing a new business unit is required, MAIF expenditures increase significantly; however, it is likely to only be necessary if a large number of people apply for LAIP coverage. Even if establishment of a new business unit is not necessary, MAIF is likely to require additional staff and training for existing staff depending on how many individuals participate in the program. The development and implementation of LAIP is expected to take eight months, meaning the program is expected to be operational near the end of fiscal 2019.

Nonbudgeted expenditures increase by at least \$330,000 in fiscal 2019 to reprogram MAIF's database to establish the program and track eligible applicants and policyholders. In addition, nonbudgeted expenditures increase negligibly in fiscal 2019 as MAIF makes the necessary rate and form filings with MIA.

Program Outreach

The bill's \$0.10 fee for private passenger policyholders results in a nonbudgeted revenue increase of at least \$480,000 each year for MAIF ($\$0.10 * 4.8$ million registered vehicles). MAIF has discretion on how it conducts marketing and outreach for LAIP; therefore, nonbudgeted expenditures increase annually by up to the amount available for this purpose.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore County; Maryland Department of Transportation; Maryland Insurance Administration; Maryland Automobile Insurance Fund; Department of Legislative Services

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