

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

Senate Bill 732

(Senator Muse)

Finance

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**Low-Cost Automobile Insurance Program - Prince George's County**

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This bill establishes the Low-Cost Automobile Insurance Program in Prince George's County under the Maryland Automobile Insurance Fund (MAIF). The bill authorizes the program to sell, issue, and deliver to an eligible individual a policy that provides the security as necessitated by State law. The program must be developed in consultation with the Maryland Insurance Administration (MIA). The bill requires the executive director of the program to determine premiums, subject to approval of the Insurance Commissioner. The bill also requires the program's Board of Trustees, in consultation with MIA, to adopt regulations to establish and administer the program.

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**Fiscal Summary**

**State Effect:** Special fund revenues increase negligibly in FY 2013 to account for a one-time \$125 filing fee by MAIF. The bill's requirements may be handled within existing budgeted resources.

**MAIF Effect:** Nonbudgeted revenues decrease in FY 2013 and subsequent years to reflect the decrease in premiums paid by current MAIF policyholders in Prince George's County that meet the eligibility requirements of the program. Nonbudgeted expenditures increase by \$150,000 in FY 2013 to reprogram MAIF's database to establish the program.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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## **Analysis**

**Bill Summary:** The program's purpose is to offer low-cost automobile insurance policies to Prince George's County residents. The program is part of MAIF and must be administered in the same manner as MAIF.

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 the time and in a manner approved by the program. The bill authorizes the program to (1) reject an application if the applicant owes the program an unpaid premium on an expired or canceled policy; (2) cancel a policy any time for either nonpayment of a premium or loss of eligibility; or (3) reject an application or cancel a policy if the applicant or insured's drivers license is found to be revoked.

The bill requires that each policy issued by the program 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.

The bill requires that each policy only provide 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.

The bill authorizes fund producers to bind coverage in MAIF for an applicant to the program if the applicant submits an application to the fund producer and pays the required premium. Fund producers must provide notice to applicants regarding the policy's limitations.

### **Current Law:**

*Maryland Insurance Requirements:* 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 may not issue or transfer the registration of a motor vehicle unless the owner or prospective owner of the vehicle furnishes evidence satisfactory to MVA that the required insurance is in effect. Maryland drivers are not required to carry proof of insurance. The required insurance, specified under Title 17, Subtitle 1 of the

Transportation Article and Title 19, Subtitle 5 of the Insurance Article, must provide for 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, in addition to interest and costs (liability coverage) (these limits were increased from \$20,000 and \$40,000, respectively under Chapter 441 of 2010, effective January 1, 2011);
- the payment of claims for property of others damaged or destroyed in an accident of up to \$15,000, in addition to interest and costs;
- unless waived, personal injury protection (PIP) coverage (minimum coverage for medical, hospital, and disability benefits up to \$2,500 for payment of expenses that arise from the accident, lost income, and reimbursement for essential services for care and maintenance of the family or family household); and
- 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).

Auto liability insurance coverage is mandatory in 48 states and the District of Columbia. Only New Hampshire and Wisconsin do not have compulsory auto insurance liability laws; however, their respective laws require financial responsibility (*i.e.*, enough assets to pay claims against the motorist if the motorist causes an accident and does not have auto insurance) to operate a vehicle. Further, uninsured motorist coverage is not obligatory in every state; therefore, some insured drivers are not covered when they are hit by an uninsured driver. However, as described above, Maryland law requires drivers to purchase uninsured motorist coverage.

Uninsured motorist coverage pays for injury and damages caused by an uninsured (or underinsured) or hit-and-run driver. This coverage reimburses the policyholder, members of the policyholder's family, or designated driver for an accident caused by the uninsured motorist. This coverage generally pays for medical bills and wage loss; pain, suffering, and disfigurement; emotional distress; and loss of future earning capacity. Uninsured motorist coverage may not include property damage; however, a policyholder may be protected for property losses under collision coverage.

*MAIF – Insured Division:* Created by the General Assembly in 1972, MAIF, through its Insured Division, provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. 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 state.

MAIF must issue a policy for motor vehicle liability insurance if an applicant pays a premium and:

- owns a covered vehicle registered with MVA, has a license issued by MVA to drive a covered vehicle, or is a lessee under a “lease not intended as security” as defined by Maryland law;
- does not owe to MAIF (1) an unpaid premium with respect to a policy that has expired or been canceled; or (2) a claim payment obtained by fraud;
- has made at least two good faith efforts to obtain a policy from two separate members of the Industry Automobile Insurance Association or has had a policy canceled or nonrenewed by an association member for a reason other than nonpayment; and
- meets specified residency requirements.

MAIF may not issue a policy if a person does not meet these requirements, including applicants who either lease a private passenger vehicle to an individual who does not meet the residency requirements or garages the vehicle principally outside the State. There are specified exceptions for armed forces members on active duty and students.

**MAIF Effect:** Nonbudgeted revenues decrease in fiscal 2013 and subsequent years to reflect the decrease in premiums paid by current MAIF policyholders in Prince George’s County that meet the eligibility requirements of the program. The amount of decrease is not quantifiable due to limited information regarding the number of eligible Prince George’s County residents.

MAIF insured 17,538 vehicles in Prince George’s County in 2011. MAIF has two territories in the county. It advises that the current premiums in the first territory for a 30-year-old married male with zero to one point for a moving violation for full PIP and limited PIP are \$1,053 and \$1,026, respectively. If the bill is enacted, eligible Prince George’s County residents will be able to purchase coverage with lower limits. MAIF estimates that, for the same person insured under the program, premiums decrease to \$908 for full PIP and \$881 for limited PIP. The premiums will similarly decrease in MAIF’s second territory.

Additionally, nonbudgeted expenditures increase by \$150,000 in fiscal 2013 to reprogram MAIF’s database to establish the program and track eligible applicants and policyholders.

There are no similar low-cost automobile insurance programs in the State to use as a template for the reprogramming. MAIF advises the reprogramming may take up to seven months.

**Additional Comments:** The bill sets lower minimum security requirements for program policyholders than those currently required by State law. According to the bill, these security requirements, though lower than statewide requirements, satisfy the minimum security requirements as set by the Transportation Article

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Prince George's County, Maryland Insurance Administration, Maryland Automobile Insurance Fund, Maryland Department of Transportation, Department of Legislative Services

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