

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1295

(Delegate Brooks, *et al.*)

Economic Matters

Low-Cost Automobile Insurance Program

This bill establishes the Low-Cost Automobile Insurance Program (LAIP). The program must be developed by the Maryland Automobile Insurance Fund (MAIF) in consultation with the Maryland Insurance Administration (MIA).

Fiscal Summary

State Effect: General fund revenues from the premium tax decrease beginning in FY 2018 to the extent existing MAIF policyholders pay less in premiums by purchasing a LAIP insurance policy instead. MIA special fund revenues increase negligibly in FY 2018 as MAIF makes the rate and form filings necessary to implement LAIP; MIA can handle the bill's requirements using existing budgeted resources. The bill may result in fewer uninsured drivers in the State, thereby increasing premium tax revenues and reducing the uninsured motorist penalties collected by the Motor Vehicle Administration (MVA) and distributed for specified purposes; however, any such impact cannot be reliably estimated and is not reflected in this analysis. State expenditures are not otherwise affected.

MAIF Effect: Nonbudgeted revenues for MAIF decrease, potentially significantly, beginning in FY 2018 as existing MAIF policyholders obtain LAIP coverage instead; nonbudgeted expenditures decrease correspondingly due to reduced claim payments from the reduced liability for policyholders. However, nonbudgeted expenditures increase by at least \$300,000 in FY 2018 for MAIF to reprogram its database to establish LAIP. Total nonbudgeted expenditures may be significantly higher to the extent MAIF has to establish a separate business unit to manage and administer LAIP, as discussed below.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
NonBud Rev.	(-)	(-)	(-)	(-)	(-)
NonBud Exp.	\$300,000	(-)	(-)	(-)	(-)
Net Effect	(\$300,000)	(-)	(-)	(-)	(-)

Note: (-) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

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 Maryland residents. LAIP 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 LAIP. 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 either nonpayment of a premium or loss of eligibility; or (3) reject an application or cancel a policy if the applicant or insured's driver's license is found to be suspended or revoked.

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 MVA in assessing vehicle license fees.

The bill establishes that a low-cost policy issued by LAIP must contain the minimum coverages required for all other automobile insurance with the following exceptions:

- 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.

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.

MAIF's executive director must determine premiums for LAIP's policies, subject to the approval of the Insurance Commissioner. MAIF's board of trustees, in consultation with MIA, must adopt regulations to establish and administer LAIP.

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. 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.

Maryland Automobile Insurance Fund – 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.

Maryland Automobile Insurance Fund – 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 (TTF), Maryland Department of State Police (MSP), MAIF’s Uninsured Division, and the general fund based on a specified formula.

If the required security for a vehicle lapses, MVA may assess the owner of the vehicle a penalty of \$150 for each vehicle without the required security for the first 30 days. Beginning on the thirty-first day, the fine increases by a rate of \$7 for each day, but the total fine may not exceed \$2,500 annually, not including the additional misdemeanor penalty of up to \$500, which may be prepaid with a fine of \$290. *Knowingly* operating a vehicle without adequate security is a misdemeanor, subject to maximum penalties of a \$1,000 fine and/or one year imprisonment for a first offense and a \$1,000 fine and/or two years imprisonment for a subsequent offense. The violation requires a court appearance, results in the imposition of five points on the driver’s record, and subjects the driver to participation in the Driver Improvement Program.

State Revenues: General fund revenues decrease beginning in fiscal 2018 based on the number of existing MAIF policyholders that purchase coverage through LAIP instead, due

to the reduced premium cost; however, the precise impact cannot be reliably estimated at this time.

MAIF advises that it currently issues about 59,000 policies and the average annual premium for a liability only policy is \$1,780. MAIF further advises that the average cost of a policy under LAIP is likely to be \$526 less, at an average cost of \$1,254. *For illustrative purposes only*, if 10% (5,900) of MAIF's policyholders qualify for and purchase insurance under LAIP, then MAIF would collect \$3.1 million less in premiums each year. Therefore, general fund revenues derived from the premium tax would decrease by \$62,000.

The bill's changes may also reduce the total number of uninsured drivers in the State, resulting in additional premium tax revenues and fewer uninsured motorist penalties collected by the Motor Vehicle Administration and distributed to the TTF, MSP, MAIF's Uninsured Division, and the general fund. However, any such impact is potential, indirect, cannot be reliably estimated at this time and is, therefore, not included in this analysis.

Maryland Automobile Insurance Fund Fiscal Effect: Nonbudgeted revenues decrease in fiscal 2018 and subsequent years to reflect the decrease in premiums paid by current MAIF policyholders that meet the eligibility requirements of the program. The amount and magnitude of the decrease cannot be reliably estimated due to limited information regarding the number of eligible MAIF policyholders. *For illustrative purposes only*, using the example above, if 10% (5,900) of MAIF's policyholders qualify for and purchase insurance through LAIP, then MAIF's nonbudgeted revenues would decrease by \$3.1 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. 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 2018.

Additionally, nonbudgeted expenditures increase by at least \$300,000 in fiscal 2018 to reprogram MAIF's database to establish the program and track eligible applicants and policyholders. Nonbudgeted expenditures increase negligibly in fiscal 2018 as MAIF makes the necessary rate and form filings with MIA.

Additional Information

Prior Introductions: None.

Cross File: SB 533 (Senator Benson, *et al.*) - Finance.

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

Fiscal Note History: First Reader - February 26, 2017

md/ljm

Analysis by: Richard L. Duncan

Direct Inquiries to:

(410) 946-5510

(301) 970-5510