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FISCAL AND POLICY NOTE
First Reader

House Bill 660
Economic Matters

(Delegate Turner, *et al.*)

Baltimore City and Prince George's County - Lifeline Low-Cost Automobile
Insurance Program

This bill establishes the Lifeline Low-Cost Automobile Insurance Program (LLAIP) to offer low-cost automobile insurance policies to residents of Baltimore City and Prince George's County. 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 are likely affected beginning in FY 2021 due to the premium tax. Otherwise, State revenues and expenditures are not materially affected.

MAIF Effect: Overall, nonbudgeted revenues and expenditures related to policy coverage likely decrease as *existing* MAIF policyholders obtain LLAIP coverage instead. However, nonbudgeted revenues increase by at least \$520,000 annually beginning in FY 2021 due to the outreach fee; related expenditures are discretionary. Nonbudgeted expenditures also increase in FY 2021 by approximately \$800,000 for programming costs related to LLAIP. 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: LLAIP's purpose is to offer low-cost automobile insurance policies to residents of Baltimore City and Prince George's County. LLAIP 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 LLAIP, as specified.

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 LLAIP. Each policy issued by LLAIP may provide coverage only for an automobile valued at \$25,000 or less at the time of application, as evidenced by the value given to the automobile by the Motor Vehicle Administration (MVA) in assessing vehicle license fees. As soon as practicable, LLAIP must allow an applicant to demonstrate eligibility and purchase a policy through the Internet.

Program Coverage Requirements

The bill generally establishes that a low-cost policy issued by LLAIP 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 LLAIP satisfies the minimum security required. Additionally, LLAIP must offer an applicant who purchases a policy the option to purchase additional uninsured/underinsured motorist coverage, personal injury protection coverage, or any other coverage approved by the Insurance Commissioner.

Program Premiums

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

LLAIP is authorized to charge a different premium to policyholders for drivers who are younger than age 25; however, that 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 LLAIP to determine the premiums for its policies. LLAIP must annually file its proposed rates with MIA and may not use them until they are approved by the Commissioner. Before taking action on LLAIP's proposed rates, MIA must hold a public hearing to review the rates.

LLAIP 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. LLAIP policies may not be financed under a premium finance agreement.

Cancelation and Nonrenewal of Policies

LLAIP 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) not renew a policy if the insured fails to meet the eligibility requirements. If LLAIP rejects a policy due to unpaid premiums, it must notify the applicant. If the applicant pays the unpaid premiums, LLAIP may not reject the applicant if he or she is otherwise eligible.

Other Provisions

Insurers licensed to write motor vehicle liability insurance or motor vehicle physical damage insurance in the State must pay an annual fee of \$0.10 per insured vehicle to support LLAIP's marketing, outreach, and other public education efforts required to raise public awareness of the program. The House Economic Matters Committee and Senate Finance Committee must annually review LLAIP's public awareness expenditures.

The bill authorizes a MAIF insurance producer to bind coverage in MAIF for an applicant to LLAIP if the applicant submits an application and pays the required premium. A MAIF producer must provide notice to an applicant for a LLAIP 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 5.2 million registered and insured vehicles in the State. The security required 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;
- 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 or enhanced underinsured motorist coverage under Chapters 20 and 815 of 2017 (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).

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.

The division also administers the Uninsured Motorist Education and Enforcement Fund pursuant to chapters 195 and 196 of 2018. The fund must be used to educate drivers and the public about the security requirements of the Maryland Vehicle Law and the sources of automobile insurance in the State.

State Revenues: General fund revenues decrease beginning in fiscal 2021 to the extent existing MAIF policyholders purchase coverage through LLAIP 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 Prince George's County in 2019, MAIF estimates approximately 35% of its policyholders (19,790 total policies) may be eligible to participate in LLAIP. The average annual premium for a liability-only MAIF policy for policyholders who reside in Baltimore City or Prince George's County is \$2,071. MAIF further estimates that the average cost of a policy under LLAIP is likely to be \$661 less, at an average cost of \$1,410. *For illustrative purposes only*, if half (9,895) of these policyholders qualify for and purchase insurance under LLAIP, then MAIF collects \$6.5 million less in premiums each year. Therefore, general fund revenues derived from the premium tax decrease by about \$130,800.

MAIF Fiscal Effect:

LLAIP Coverage and Program Administration

Nonbudgeted revenues decrease in fiscal 2021 and subsequent years to reflect the decrease in premiums paid by current MAIF policyholders that obtain LLAIP 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 LLAIP policy instead of a MAIF policy. *For illustrative purposes only*, using the example above, if half (9,895) of the policyholders qualify for and purchase insurance through LLAIP, then MAIF's nonbudgeted revenues decrease by \$6.5 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 LLAIP 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 LLAIP 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 LLAIP is expected to take more than eight months, meaning the program is not expected to be operational by the bill's October 1, 2020 effective date.

Nonbudgeted expenditures increase by approximately \$800,000 in fiscal 2021 to upgrade MAIF's existing database to establish the program and track eligible applicants and policyholders. These costs include design, coding, and testing for the upgraded system. Costs continue in future years for ongoing maintenance of the new system. In addition, nonbudgeted expenditures increase negligibly in fiscal 2021 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 \$520,000 each year for MAIF (\$0.10 x 5.2 million registered vehicles). MAIF has discretion on how it conducts marketing and outreach for LLAIP; therefore, nonbudgeted expenditures increase annually by up to the amount available for this purpose.

Additional Information

Prior Introductions: A bill with similar provisions that applied to Baltimore City and Baltimore County, HB 1514 of 2018, received a hearing in the House Economic Matters Committee and was subsequently withdrawn.

Designated Cross File: SB 934 (Senator Hayes, *et al.*) - Finance.

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

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