



**MARYLAND**  
AUTO INSURANCE

**POSITION ON PROPOSED LEGISLATION**

**Date:** February 9, 2023

**Position:** Informational / Letter of Concern

**Bill Number:** House Bill 355

**Bill Title:** Baltimore City Lifeline Low-Cost Automobile Insurance Program

**House Bill 355 Review and Analysis:**

We applaud the intent of House Bill 355 to create a low-cost automobile insurance program for Baltimore City residents who are unable to afford premiums for the current minimal limits. The legislation appears to track a similar program offered to California residents. The low-cost automobile program is to be administered by Maryland Automobile Insurance Fund, and developed in consultation with the Maryland Insurance Administration. The legislation, as introduced, creates a significant financial burden to Maryland Automobile Insurance Fund, and raises the specter of lowering the number of fully insured motorists in Maryland while creating overwhelming financial difficulties for Maryland Auto. Additionally, there is no provision for capitalizing the program and no provisions for reserves or requirements for surplus.

Applicants must meet the following requirements to purchase this low-cost automobile insurance policy:

- Own, lease or rent a primary place of residence in Baltimore City for more than one year;
- Filed a Maryland State Income Tax Return;
- Gross annual household income that does not exceed 300% of the Federal poverty level;
- Must be at least 19 years old and continuously licensed to drive for the previous three years;
- May only have one at fault property damage claim or one point for a moving violation within the previous three years;
- No at fault accidents involving bodily injury claims within the previous three years;
- No felony or misdemeanor convictions for a violation of the motor vehicle laws other than for a violation of §17-107 of the Transportation Article;
- Value of vehicle must be \$25,000 or less.

Under current law, Maryland vehicle owners must maintain the minimum security required by §17-103 of the Transportation Article: at least bodily injury limits of \$30,000/\$60,000; property damage limits of \$15,000; personal injury protection of \$2,500, unless waived or rejected; and uninsured motorist coverage limits of \$30,000/ \$60,000/ \$15,000. House Bill 355 would allow qualifying Baltimore City residents to satisfy the minimum security requirements required by §17-103 of the Transportation Article with only \$15,000/ \$30,000 bodily injury limits and \$7,500 property damage limits plus interest and costs.

Uninsured motorist coverage or underinsured motorist, personal injury protection coverage or another coverage approved by the Insurance Commissioner may be purchased as optional coverages.

We have no way to determine the number of Baltimore City residents insured with other insurance carriers that may be eligible for the low-cost automobile program or if they would purchase the policy.

Approximately four-point three percent (4.3%) or 1,056 of Maryland Auto policies sold in 2021 had a policyholder at least 19 years old with no more than one at fault property damage accident or moving violation who resided in Baltimore City. We do not collect data on income tax status, annual income, felony or misdemeanor convictions. Our current annual average premium for a liability only policy for policyholders residing in Baltimore City is \$2,399. Liability only policies under current law must include property damage, bodily injury, uninsured motorist and personal injury protection coverages. Maryland Auto estimates the premium for a low-cost liability only policy will be approximately \$2,350 and if all of the current Maryland Auto policyholders who qualified for the low-cost program entered the program, they would receive a \$49 premium reduction. The bill makes uninsured motorist and personal injury protection coverages optional, however, if the policyholder chooses to purchase liability only without these coverages, the low-cost annual premium will be approximately \$1,643, a reduction per policy of \$756. This would result in a \$2.5 million reduction in net written premium for Maryland Auto.

House Bill 355 requires low-cost automobile program participants to pay premiums in full or on an installment basis. Premium financing is prohibited. The low-cost automobile installment plan requires a down payment of not less than 16%, equal installment payments beginning in the third month and ending in the tenth month, and an installment fee of not more than \$3.00. The low-cost installment plan provisions are better than the current Maryland Auto installment plan approved by the Insurance Commissioner which requires an 18% down payment, nine installment payments, an installment fee of \$2.00, and a late fee of \$5.00.

Maryland Automobile Insurance Fund will incur a one-time \$125 rate and form filing fee to the Maryland Insurance Administration. Our Information Technology Department estimates one-time computer programming will cost approximately \$650,000 to \$1,000,000 with \$200,000 in annual maintenance. Any interface with other State agencies or outside vendors to determine eligibility will generate additional expenses. We would likely be required to establish a separate business unit, with separate underwriting process and billing systems to manage this new program plus additional IT and claim resources focused on this program. Depending on volume, we estimate the direct operating costs for the new low-cost program unit to be approximately \$2.0 million annually. The development and implementation of the low-cost automobile insurance program will take more than eight months. Therefore, Maryland Auto will have difficulty in meeting the October 1, 2023 effective date.

In summary, we anticipate a one-time \$650,000 to \$1,000,000 plus to design and implement the low-cost program, \$200,000 in annual computer maintenance, and approximately \$2.0 million in additional costs to

operate the low-cost program annually. In addition, we would expect a \$2.5 million reduction in written premium in our basic Maryland Auto policies.

Maryland Auto's surplus significantly declined in 2022 and more than likely a private passenger assessment will be triggered in 2023. The cost to implement House Bill 355 and reduction in written premium will further erode Maryland Auto Insurance's surplus which will expedite an assessment.

**Conclusion**

Please let me know if I can answer any questions.

For Information: Sandra Dodson – Government Relations 667-210-5182