WES MOORE
Governor

ARUNA MILLER
Lt. Governor

KATHLEEN A. BIRRANE
Commissioner

TAMMY R. J. LONGAN
Acting Deputy Commissioner

Maryland
INSURANCE ADMINISTRATION

200 St. Paul Place, Suite 2700, Baltimore, Maryland 21202
Direct Dial: 410-468-2353 Fax: 410-468-2020
1-800-492-6116 TTY: 1-800-735-2258
www.insurance.maryland.gov

Date: **February 9, 2023**

Bill # / Title: **House Bill 355 – Baltimore City Lifeline Low-Cost Automobile Insurance Program**

Committee: **House Economic Matters Committee**

Position: **Letter of Information (LOI)**

The Maryland Insurance Administration (MIA) appreciates the opportunity to provide the Committee with information regarding House Bill 355 (HB 355).

HB 355 will create a new "Low-Cost Automobile Insurance Program" ("the Program") for qualified applicants from economically challenged households in Baltimore City. The Program would be part of, and administered by, the Maryland Automobile Insurance Fund ("MAIF"). HB 355 would require MAIF to offer motor vehicle liability policies to qualified applicants in Baltimore City with coverage limits that are ***half*** of the minimum requirements specified in § 17-103 of the Transportation Article. As drafted, HB 355 limits underwriting, pricing, payment and reserving considerations and factors. The bill also requires carriers in the admitted market to pay a per vehicle insured assessment to cover the costs of marketing the Program.

While the MIA supports the premise of increasing the affordability of automobile insurance for individuals who meet the economic criteria identified in the bill, the MIA is concerned about the impact of this Program on MAIF and on consumers.

For context, the MIA notes that MAIF is the State's residual market mechanism for automobile liability insurance, meaning that it is the insurer of last resort. MAIF was created after the passage of the laws that require that all vehicles be covered by auto insurance that meets certain statutory requirements and has minimum statutory limits, in order to assure that qualified residents of the State who cannot acquire such insurance from the admitted market (typically due to a poor driving records and/or claims history) can still buy insurance and, thus, comply with the mandatory financial responsibility/insurance laws. MAIF also covers claims that meet the definition of unsatisfied claims under § 20-601. If MAIF's surplus falls below a certain amount, an assessment must be imposed on essentially all admitted auto insurers in the state, who are permitted to pass their respective share of the assessment onto their individual policyholders as a line item charge on their insurance premium bill.

The MIA believes that the Program will have significant financial impact on MAIF at a time when its surplus is moving towards a statutorily imposed assessment trigger. During the 2020 regular session, MAIF estimated the associated start-up costs of the Program to be $1,000,000, with annual operating expenses of $6,600,000. Additionally, MAIF noted the potential for a surplus reduction of $8,400,000, due to movement of policies from its existing Program to the low-cost Program. These costs are unlikely to be less at this time and MAIF's surplus levels have declined significantly since 2020.

In addition,

- Because the Program is limited to residents of Baltimore City, it provides no benefit to economically challenged residents across the rest of Maryland, even though the Program has a financial impact on residents outside of Baltimore City – including potentially impacting costs for economically challenged individuals who do not live in Baltimore City;

- HB 355 is likely to increase the number of underinsured motorist claims and, thus, increase in the rates for uninsured / under-insured coverage for all Marylanders, because Program policies will have one-half of the limits required under other policies. Because this body has previously determined the minimum limits necessary to provide appropriate financial responsibility, issuing policies with one-half of those limits means that the coverage is inadequate for purposes of financial responsibility. This gap is particularly concerning at a time when loss costs associated with both bodily injury and physical damage claims are increasing. Low limits for these policies means that the people whose injuries or property losses exceed those low limits will make claims against their own underinsured motorist coverage, impacting auto insurance costs for the entire Maryland market;

- HB 355 will direct good drivers from economically challenged households to MAIF, instead of the admitted market. Any rate relief created by statute for good drivers from economically challenged households should be delivered via the admitted market, while drivers from such households with poor driving records should obtain such rate relief via the residual market mechanism, MAIF;

- HB 355 requires MAIF to develop rates that are sufficient to cover all losses and the Program's expenses and submit the rates for the prior approval of the Insurance Commissioner. MAIF will be challenged in this effort by the bill's specific limitation to a single rating factor, the age of the eligible applicant. This restriction eliminates many of the most important traditional rating factors such as the type of vehicle and annual mileage driven. Additionally, this restriction will result in just two rates (under 25 years old and 25 years and older) and will fail to provide the best rates to the best risks in the Program, thereby rewarding the worst risks in the Program; and

- HB 355 creates a conflict between the Transportation Article, which requires minimum limits twice that provided by the Program and the Insurance Article. As noted above, these limits reflect the policy decision of this body as to the minimum amounts that are necessary for compulsory automobile insurance to fulfill its public purpose of compensating accident victims. The MIA respectfully suggests that any statutorily created rate relief for economically challenged households should not abandon this important consumer protection and should continue requiring all vehicle owners in Maryland to maintain the same mandatory minimum liability insurance coverage limits.

The Maryland Insurance Administration supports the premise of making automobile insurance more affordable for economically challenged households and is willing to participate in any research and study efforts aimed at that objective.