



Consumer Federation of America

Testimony of Consumer Federation of America in Support of HB 355— Baltimore City Lifeline Low-Cost Automobile Insurance Program— Favorable

February 9th, 2023

Chair Wilson, Vice Chair Crosby, members of the House Economic Matters Committee:

The Consumer Federation of America (CFA) submits this testimony in support of HB 355—Baltimore City Lifeline Low-Cost Automobile Insurance Program—sponsored by Delegate Bridges. CFA urges the House Economics Matters Committee to favorably report this bill, which will provide an auto insurance lifeline program for safe-driving, low-income Baltimore consumers. In doing so, not only will it provide a realistic opportunity for financially vulnerable residents to comply with the state’s auto insurance requirements, it will reduce the threat of uninsured crashes and the cost of uninsured motorist premiums for all Marylanders. This program would be:

- Means tested (for consumers earning below 300% of the federal poverty line)
- For good drivers only (drivers with no DUIs and no more than one point on their record)
- Revenue neutral, and
- Actuarially sound, ensuring that the premiums cover the cost of program-related insurance claims.

CFA is an association of over 250 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Today over 250 groups participate in the federation and govern it through our Board of Directors. Our testimony is based on our years of experience working to combat unfair discrimination in auto insurance and to promote availability and affordability in auto insurance markets. Douglas Heller, CFA’s Director of Insurance, serves as a member of the United States Department of the Treasury’s Federal Advisory Committee on Insurance and as a Public Member of the California Automobile Assigned Risk Plan Advisory Board, which oversees that state’s auto insurance program for low-income drivers. CFA’s Research and Advocacy Associate Michael DeLong serves as a member of the Nevada Division of Insurance’s Property and Casualty Advisory Committee and as a funded Consumer Representative with the National Association of Insurance Commissioners (NAIC).

Background on the Need for HB 355

Maryland currently requires all drivers to purchase and maintain auto insurance. If consumers drive without auto insurance they face severe consequences, including a \$150 fee for the first 30 days of driving uninsured, \$7 for each day thereafter, a \$25 restoration fee, a ban on registering new vehicles or renewing registration until all insurance suspensions are cleared, and the confiscation of license plates. Driving without insurance is also a misdemeanor and subject to a

\$1,000 fine for a first offense and up to one year in jail and five points added to the individual’s license.¹ A second offense can surpass \$2,000 in charges and result in up to two years in jail, and a driver’s insurance rates will increase substantially.

Maryland also requires its residents to purchase more auto insurance coverage than all but four other states, and Maryland residents’ annual auto insurance expenditure is higher than that in about 40 states, according to data from the National Association of Insurance Commissioners. Prior research by CFA indicates that Baltimore insurance premiums are among the highest of any metropolitan region in the United States. In recent research we conducted with Economic Action Maryland, we found that the average cost of a minimum limits auto insurance premium for a driver with a clean record is \$1,892 a year in Baltimore City. Furthermore, some Baltimore City drivers pay more than \$2,400 depending on their ZIP code.²

In light of the state insurance requirement, the penalties for uninsured driving, and the high cost of mandatory insurance, state legislators have a responsibility to ensure that there is an affordable insurance product for low-income residents who need a vehicle to meet their work and family obligations.

The chart below shows the average cost of auto insurance by Baltimore City District.³ In 2017, the Federal Insurance Office (FIO) conducted a study and found that more than 339,000 people live in underserved ZIP codes in Baltimore where auto insurance was deemed unaffordable, which was defined as a ZIP code where the average premium for basic limits insurance costs more than two percent of the ZIP code’s median household income.⁴

District	Average Annual Auto Insurance Premium	Median Household Income	Percentage of Income Spent on Premium
District 40	\$2,009	\$33,900	5.93%
District 41	\$1,978	\$47,200	4.19%
District 43	\$1,958	\$47,600	4.11%
District 45	\$1,909	\$39,600	4.82%
District 46	\$1,715	\$59,400	2.89%

¹ Motor Vehicle Administration, Maryland Department of Transportation. Available at <https://mva.maryland.gov/vehicles/Pages/insurance-uninsured.aspx>.

² “How Zip Codes Affect Auto Insurance Premiums in Maryland.” Consumer Federation of America and Maryland Consumer Rights Coalition. March 2021. Available at <https://static1.squarespace.com/static/5b05bed59772ae16550f90de/t/603d482c9e1e6b26c0d61423/1614628908438/Policy+Brief-How+Zip+Codes+Impact+Maryland+Auto+Insurance+Premiums+.docx+%283%29.pdf>.

³ Data used to calculate these premiums were acquired by CFA from Quadrant Information Services LLC and include auto insurance premiums charged by Maryland’s ten largest auto insurers, representing almost 90% of the market. The premiums in the dataset reflect the cost of a policy covering only the state’s mandatory coverages for a customer with no accidents, tickets, or claims on their driving record. The base driver profile is of a 35 year old male or female driver who rents their home, owns their car, has a perfect driving record with no tickets, crashes, or claims, drives a 2011 Honda Civic LX, and purchases the minimum required auto insurance coverage.

⁴ “Study on the Affordability of Personal Auto Insurance.” Federal Insurance Office, Department of the Treasury. January 2017. Available at https://home.treasury.gov/system/files/311/FINAL%20Auto%20Affordability%20Study_web.pdf.

All legislative districts in Baltimore have average premium costs that surpass FIO's 2% standard of affordability. Districts 40, 41, 43, and 45 all have average premium costs more than twice as high as that standard. Within each district, low-income ZIP codes and ZIP codes with predominantly Black residents often face even higher average premium costs. As the data from FIO and other research indicate, the issue of unaffordable auto insurance disproportionately impacts Black residents in Baltimore City. Things are getting worse, as Maryland insurance rates rose by 25% in 2022, one of the top three highest rate hikes in the nation.⁵ Rates are projected to increase again in 2023 which will have further harmful impacts on consumers.

It is well understood that access to a vehicle significantly improves economic opportunities for low-income consumers. However, for too many consumers, the cost of insurance is the chief barrier to driving, meaning people must either rely on public transportation or drive illegally without insurance. Even in areas with good public transportation, the research shows vehicle access increases employment options, job stability, and other measures of social and economic well-being.

HB 355 Offers an Auto Insurance Lifeline to Safe Drivers in Baltimore

HB 355 would create a means-tested program for affordable auto insurance, which would start as a pilot program in Baltimore. This low-cost program is similar to an already existing low-cost auto insurance program in California, though it would require Baltimore drivers to carry more coverage than is mandated in the California program. HB 355 would allow low-income drivers with a safe driving history to purchase an insurance policy with coverage of \$15,000 per injury, \$30,000 for two or more injuries, and \$7,500 for property damage from a single accident, which is below Maryland's otherwise mandatory minimum liability limits. Reducing the limits of coverage provided reduces the cost of insurance and creates a policy that will be affordable to many of the safe-driving Baltimore residents who are currently uninsured due to the high cost of coverage in the market. State law would recognize the program's policyholders as complying with Maryland's financial responsibility requirement.

To qualify for this program, drivers must have a good driving record with no drunk driving convictions, no more than one minor accident and no major at-fault accidents with bodily injury in the past three years, and no more than one moving violation in the past three years. They must further have an income below 300% of the federal poverty line and live in Baltimore City.

Due to both the lower limits of coverage provided and the exclusion of unsafe drivers from the program, the policy would be substantially less expensive than policies offered by either the voluntary market or Maryland Auto. Program rates would be subject to annual review to ensure they are actuarially sound and reflect actual insurance claims. The rates would also cover the administrative costs associated with the underwriting and other day-to-day costs of providing insurance. Under California's low-cost auto insurance program, the average premium statewide is \$348 and the policy costs \$466 in Los Angeles – though that program provides less coverage than is proposed for Baltimore. Notably, the California Department of Insurance found that 93% of drivers in the California program reported being uninsured before they enrolled.

⁵ "2022 Auto Insurance Trends Report: Part II." Insurify. Available at <https://insurify.com/report/auto-insurance/december-2022/>.

Maryland's proposed affordable auto insurance program will create an on-ramp for working families who are not driving because of the high cost of insurance, who are driving without insurance, or who are sacrificing vital necessities in order to pay for insurance. The program would be managed by the Maryland Automobile Insurance Fund (MAIF), which is set up as our state's insurer of last resort. MAIF's current book of business provides coverage for consumers who have been refused insurance in the private marketplace either because of their credit history, a lack of prior insurance, or because they have a history of unsafe driving. With this Lifeline law, MAIF would offer a separate program for safe drivers whose poverty, not driving record, is keeping them from being able to maintain the coverage required by state law.

HB 355 will ensure that low-income drivers can get affordable auto insurance. As more low-income, good drivers become insured by obtaining insurance policies through this new program, our roads will become safer, and more low-wage consumers will be able to afford to comply with the law. Creating a Baltimore City Lifeline Low-Cost Automobile Insurance Program will help many uninsured drivers get auto insurance, promote economic mobility, and reduce costs for Baltimore drivers and others throughout the state.

Consumer Federation of America supports policies that assist low-income drivers comply with the law and purchase affordable insurance. We ask that the Committee issue a favorable report on HB 355. Please contact us at mdelong@consumerfed.org if you have any questions.

Sincerely,

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