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Date:	**March 5, 2025**
Bill # / Title:	**Senate Bill 697 - Maryland Automobile Insurance Fund - Premium Discounts - Methodology**
Committee:	**Senate Finance Committee**
Position:	**Support with Amendments**

The Maryland Insurance Administration ("MIA") appreciates the opportunity to share its support for Senate Bill 697 with amendments.

Senate Bill 697 would require that a premium discount provided by the Maryland Automobile Insurance Fund ("Maryland Auto") to an insured be based on the income of the insured and be actuarially justified.

Maryland Auto is a statutorily created "insurer of last resort." Its purpose is to provide generally required vehicle liability insurance to drivers who are unable to obtain it through the voluntary market due to their high risk profile, typically evidenced by their driving records. Maryland Auto currently utilizes an affordability index, which is a cap on liability rates in certain ZIP codes, applied to provide rate stabilization in specific geographic regions. This index is not actuarially based, but rather a threshold, currently at 3.3% of median household income, used to limit premium rates in the ZIP codes where the index applies. The affordability index currently applies to any applicant from those ZIP codes, regardless of their financial status, but does not apply to applicants residing outside those ZIP codes, regardless of their financial status.

On December 13, 2024, the MIA issued an order ("the Order") regarding Maryland Auto's most recent proposed rate increase, submitted to the MIA. The filing included changes to rating factors and base rates with an effective date of January 24, 2025. Although Maryland Auto estimated the overall impact of the rate increase as +13.8%, the overall indicated rate for private passenger auto ("PPA") rates was +19.3%. The MIA reviewed the filing and engaged an external actuarial consulting firm to assess whether the rate filing was excessive, inadequate, or unreasonably discriminatory, as required under Maryland law.

The MIA concluded that the filed rate level change was inadequate, taking into account the following:

- the discrepancy between the indicated and selected rate change;
- Maryland Auto’s declining surplus;
- minimal investment yield; and
- the fact that current rates do not cover all costs associated with risk transfer.

The Order also raised concerns about Mayland Auto's surplus, projecting net surplus losses for 2024 and 2025, likely leading to assessments against Industry Automobile Insurance Association members, which will be passed on to the public. Although the MIA found the proposed rate increase inadequate, it was approved for implementation on January 24, 2025, to avoid further jeopardizing Maryland Auto's solvency and potential rate shock for Maryland insureds.

A significant part of the Order focused on the affordability index used by Maryland Auto, which, as referenced previously, caps liability rates in certain ZIP codes. The index is unfairly discriminatory because it is not based on actuarial risk and treats those with similar risk characteristics differently. The index currently employed lacks actuarial justification, prevents the recognition of risk differences across geographic regions, and may lead to unfair price differentials. Maryland Auto was directed to eliminate the use of the current affordability index over a period of two years and file new proposed rates by May 1, 2025, with a plan to address the gradual elimination of the index. By December 31, 2026, rates in the ZIP codes affected by the index must be actuarially justified and consistent with territorial rating requirements.

Senate Bill 697 seeks to address critical issues within Maryland Auto and ensures greater fairness in its premium discount methodologies. The bill stipulates that a premium discount provided by Maryland Auto to an insured must be based on the income of the insured. As referenced previously, the affordability index currently in use by Maryland Auto is not based on an individual's income, but rather on the median household income of specific ZIP codes. This means that the same rate cap is applied to all applicants within those ZIP codes, regardless of their actual financial status. By mandating that premium discounts be based on an individual's income, Senate Bill 697 will ensure that financial assistance is targeted to those who truly need it.

The MIA does propose an amendment to the legislation to remove section 20-507(I)(2), which mandates that premium reductions be "actuarially justified." A premium reduction based solely on income cannot be actuarially justified because actuarial justification requires a direct statistical relationship between the factor used for rate differentiation and the expected risk of loss, and an individual's income is not a direct predictor of their likelihood of filing an insurance claim. While affordability is a valid concern, basing discounts solely on income introduces a factor unrelated to insurance risk, potentially leading to unfair discrimination among insureds of the same risk class. Instead, the bill should be amended to state that affordability can be considered when setting rates, provided that those rates are not excessive, inadequate, or unfairly discriminatory. This change would allow Maryland Auto to offer income-based premium discounts that alleviate financial burdens on policyholders, while still ensuring that overall rates comply with the Insurance Article. This approach would also align with the goal of gradually eliminating the current affordability index, by providing a pathway to consider affordability in a way that does not create unfair price differentials or contradict actuarial principles.

The MIA also intends to submit amendment language to the sponsor and Committee for consideration that clarifies that use of affordability by Maryland Auto should also be done in the context of financial stability of the company.

The MIA remains deeply concerned about the affordability of PPA rates in Maryland and looks forward to continuing to work with the General Assembly on policy solutions to address the issue. However, the Agency does not believe that the way in which Maryland Auto has applied the affordability index to date complies with current state law. Senate Bill 697 would provide necessary reforms to that affordability index, serving as a necessary step toward a more equitable, actuarially sound, and financially stable Maryland Auto.

For the reasons set forth above, the MIA urges a favorable committee report on Senate Bill 697 with amendments, and thanks the Committee for the opportunity to share its support.