MAIF Written Testimony - SB 697 - Al Redmer.pdf
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MARYLAND
AUTO INSURANCE

Testimony of Maryland Auto Insurance Fund

Date: March 3, 2025 **Position:** **Favorable with Amendments**

Bill Number: Senate Bill 697

Bill Title: Maryland Automobile Insurance Fund – Premium Discounts - Methodology

The Maryland Automobile Insurance Fund

The Maryland Automobile Insurance Fund (MAIF) was created in 1973 to provide automobile insurance to Maryland residents that have been turned down by two insurance companies or canceled or non-renewed by one. *Insurance Article §20-301*. Originally, the statute did not make any provision for ensuring that MAIF rates were affordable. MAIF rates were set according to the basic insurance rating laws, requiring the rates to be "not excessive, inadequate, or unfairly discriminatory." Article 48A §243C (Chapter 73, 1973). But in 1985, the legislature added the language, which is in the current law, *Insurance Article §20–507* that "In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under Title 11 [not excessive, inadequate, or unfairly discriminatory] . . .but also the statutory purpose of the Fund under § 20–301 of this title." This language was added to ensure that Maryland Auto's rates "remain affordable to that segment of the population which is dependent on the Fund for automobile insurance." (Preamble, Ch. 610, 1985).

Since 1985, Maryland Auto has attempted to mitigate the effects of exceptionally high rates of insurance in the lowest income areas of the State. Maryland Auto has applied an approach referred to as its Affordability Index. The Affordability Index applies at a zip code level and results in less than adequate rates primarily in and around Baltimore City. Although the Affordability Index mitigates the harshest effect of Maryland Auto rates in certain zip codes, it does not achieve true affordability. Even with the Index, Maryland Auto rates in these zip codes are the highest in the State

In December 2024, the MIA issued an Order requiring Maryland Auto to phase out the affordability index by December 31, 2026. If Maryland Auto were required to charge fully adequate, "actuarily justified" rates, a 20%-40% increase in premiums would be required in some of the most impoverished zip codes in Baltimore City. Requiring fully adequate rates would result in hardship in low-income communities and more uninsured drivers.

In the wake of this MIA Order, it is highly uncertain whether Maryland Auto may, under any circumstances, consider affordability in its ratemaking. At a minimum, the Order makes it clear that the MIA will not accept the Affordability index, as it is not based on individual income determinations.

Senate Bill 697

SB 697 provides that a premium reduction provided by the Fund shall be based on the income of the applicant and be actuarily justified. These provisions are seemingly contradictory in that actuarily justified rates are a sound estimate of the expected value of all future costs associated with an individual risk transfer. Variations in rates based on other factors, not related to risk, e.g. income, would not be considered actuarially justified.

The intent of the bill appears to require rates to be initially actuarily justified but to allow rate reductions based on income. This would allow MAIF to continue to consider affordability, provided it is based on the income of the insured. Maryland Auto supports this concept.

Maryland Auto supports the bill with an amendment. The amendment makes it clear that Maryland Auto, as the residual insurer, has a statutory mission to provide insurance to those who would otherwise not be able to obtain insurance. This involves mitigating the effects of extremely high insurance rates in low-income communities. The amendment to §20-507 makes this role clear and is a necessary amendment after the MIA Order.

The second aspect of SB 697, requires that affordability be based on the income of the insured. To provide discounts based on income, MAIF would have to determine each applicant's income and compare that income to the MAIF rates in the applicant's zip code to determine any potential reduction. As to the income determination, there are various approaches that could be pursued but creating a system to consider individual income could not be done immediately.

A better approach would be to create a pilot program to consider aspects of eligibility, methods of determining income, application and audit processes and the scope of appropriate discounts or subsidies. Pilot programs, much like the Young Adult Health Insurance Subsidy program passed by this Committee, allow the agency to invest the time and effort necessary to establish the best means for a program of this nature to be successful. A pilot program will be a significant undertaking but would help to eliminate the necessity of substantial investment in programming an approach that may not be sustainable in the long term.

The amendment adds a new §20-507.1 to create a 3-year pilot program, in consultation with the Insurance Commissioner, and periodic reports to the Legislature.

Please let us know if we can answer any questions.

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Position: FWA

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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.

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Uploaded by: Bryson Popham
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MAMIC
Maryland Association of
Mutual Insurance Companies

191 Main Street, Suite 310 – Annapolis MD 21401 – 410-268-6871

March 3, 2025

The Honorable Pamela Beidle
Chair, Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, Maryland 21401

RE: Senate Bill 697 Maryland Automobile Insurance Fund - Premium Discounts - Methodology – UNFAVORABLE

Dear Chair Beidle and Members of the Committee,

We are writing to respectfully request an unfavorable report on Senate Bill 697.

MAMIC is comprised of 12 mutual insurance companies that are headquartered in Maryland and neighboring states. Approximately one-half of our members are domiciled in Maryland, and are key contributors and employers in our local communities. Together, MAMIC members offer a wide variety of insurance products and services and provide coverage for thousands of Maryland citizens.

A number of MAMIC members provide motor vehicle liability and physical damage insurance in Maryland. Typically, they utilize common rating and underwriting standards used by most insurers, which are subject to review by the Maryland Insurance Administration. MAMIC members do not use the income of the insured as a rating factor, and we are unaware of any insurer that does so.

While Senate Bill 697 as drafted applies only to the Maryland Automobile Insurance Fund, we note that the Fund has typically used traditional rating factors such as those described above. Permitting the Fund to utilize the income of the insured as a rating factor, introduces an entirely new element into motor vehicle insurance rating. We do not believe that income is a reliable predictor of future losses, in the same manner that an insured's driving record may be. In fact, we believe that income itself would be difficult, if not impossible, to accurately measure, so its usefulness would be impaired as a result.

For these reasons, MAMIC respectfully requests an unfavorable report on Senate Bill 697.

Sincerely,

Melissa G. Shelley

Melissa Shelley, President

cc: Bryson F. Popham