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December 31, 2016

The Honorable Thomas V. Mike Miller, Jr.
President of the Senate
State House, Room H-107
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House of Delegates
State House, H-101
Annapolis, Maryland 21401

The Honorable Thomas M. Middleton
Chair, Senate Finance Committee
Miller Senate Office Building, 3 East Wing
11 Bladen Street
Annapolis, Maryland 21401

The Honorable Dereck E. Davis
Chair, House Economic Matters Committee
House Office Building, Room 231
6 Bladen Street
Annapolis, Maryland 21401

Re: 2016 Report on the Transportation Network Industry MSAR No. 10463

Dear Sirs,

Pursuant to Senate Bill 868, Public Utilities – Transportation Network Services and For-Hire Transportation (2015 Laws of Maryland, Chapter 204), enclosed please find the 2016 Report. This Report illustrates the availability of coverage required under § 10-405 of the Public Utilities Article, as enacted by Senate Bill 868, for the transportation network industry offered by insurers admitted in the State.

Should you have any questions regarding this report, please do not hesitate to contact me.

Sincerely,

Al Redmer, Jr.
Insurance Commissioner

Enclosure

cc: Senate Finance Committee Members
House Economic Matters Committee Members
Victoria L. Gruber, Esquire, Chief of Staff (President)
Alexandra M. Hughes, Chief of Staff (Speaker)
Tami Burt, Committee Staff (Finance)
Robert Smith,, Committee Staff (House Economic Matters)
Sarah T. Albert, Library & Information Services (5 copies)
Nancy J. Egan, Director of Government Relations



2016 Report on the Transportation Network Industry
MSAR # 10463

December 31, 2016

For further information concerning this document, please contact:

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Requests should be submitted in writing to:

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EXECUTIVE SUMMARY

The Maryland Insurance Administration (“Insurance Administration”) concludes that while the availability and affordability of coverage offered by admitted insurers in the State of Maryland for the transportation network industry appears to be sufficiently available and affordable to date, such coverage is highly influenced by the development of loss data which has yet to be fully quantified due to a lack of historical information. The Insurance Administration intends to closely monitor the transportation services industry and encourage admitted insurers to enter this market segment at every available opportunity.

I. Introduction

The 2015 General Assembly enacted SB 868 Public Utilities – Transportation Network Services and For-Hire Transportation (2015 Laws of Maryland, Chapter 204, hereinafter, “the Act”)¹. The Act, which became effective July 1, 2015, includes a mandate for a study to be conducted by the Insurance Administration with respect to:

- (1) The availability of coverages required under § 10-405 of the Public Utilities Article for the transportation network industry offered by admitted insurers in the State;
- (2) Methods to increase the availability of these required coverages with admitted insurers in the State; and,
- (3) The affordability of the required coverages.

(See § 19-517.1 of the Insurance Article)

In preparing this report, the Insurance Administration sought information from representatives of the following: the PSC, the Maryland Automobile Insurance Fund, admitted insurers, an authorized rating organization, and other interested parties. Additionally, the Insurance Administration reviewed and analyzed rate and form filings of admitted insurers and consumer complaints concerning transportation network services.

II. Background

The transportation network services industry is a growing segment of the “sharing economy.” A transportation network company (“TNC”), such as Uber or Lyft, first develops a digital platform for use by transportation network operators (“TNO”). A TNO, the driver, then uses the digital platform to acquire passengers and transports them from one location to another using the TNO’s automobile.

In Maryland, a TNC is required by law to obtain a permit from the Public Service Commission (“PSC”) in order to operate. A TNO, on the other hand, is required by law to obtain a license

¹ See http://mgaleg.maryland.gov/2015RS/chapters_noln/Ch_204_sb0868T.pdf

from the PSC. Both the TNC and TNO must meet the automobile liability insurance requirements specified in the Act (*see § 10-405 of the Public Utilities Article*).

With respect to insurance, the minimum required liability coverage amounts are \$50,000.00 per person and \$100,000.00 per accident for injury or death; and, \$25,000.00 for damage to property of others. To date, there are two permitted TNCs operating in Maryland² and over 25,000 licensed TNOs.

III. Coverage Availability in Maryland's Admitted Market

The transportation network industry is a commercial automobile insurance exposure within the "public transportation" market. Public transportation risks include taxis, sedans and limousines, charter and public buses, and medical patient transport. This market segment is subject to high risk / high premium due to the nature of the risk and the many miles logged daily by drivers in these industries. Companies that operate within the public transportation market, particularly taxis and buses, often self-insure for their motor vehicle liability risks.

Transportation Network Companies

There are currently only two TNCs operating in Maryland. The Insurance Administration is not aware of any complaints from either TNC regarding a lack of coverage availability. Uber and Lyft are both insured under master insurance policies that satisfy the requirements of the Act. Lyft's policy is written by an admitted insurer while Uber's policy is written by a non-admitted insurer.

Transportation Network Operators

There are currently over 25,000 Maryland-licensed TNOs. The Insurance Administration has not received any complaints concerning the unavailability of insurance coverage.

In the course of providing services, a TNO transitions through three defined and well-documented phases ("Phases"). These three phases are:

Phase One: The TNO, the driver, is logged on to the TNCs digital network application and he or she is ready to accept ride requests.

Phase Two: The TNO accepts a ride request from a prospective passenger through the TNC's digital network application and is in transit to pick up the passenger.

Phase Three: The TNO is in transit with the passenger, until the passenger departs from the vehicle at the determined destination.

² These TNCs are commonly known as "Uber" and "Lyft".

To date, the Insurance Administration has received filings from eight (8) admitted insurers, the Maryland Automobile Insurance Fund (“MAIF”),³ and one (1) rate-making organization. Three (3) of the nine (9) insurers, which includes MAIF, have filed products that provide coverage for all three Phases. The remaining five (5) insurers have determined to offer a product that provides coverage for Phase one and / or Phase two only.

The two admitted insurers that offer coverage for all three Phases currently have substantial private passenger automobile market share in the State. Additionally, MAIF is required to issue a policy to any Maryland resident meeting the eligibility requirements (*See § 20-502 of the Insurance Article*).

The Insurance Administration concludes that while the availability and affordability of coverage offered by admitted insurers in the State of Maryland for the transportation network industry appears to be sufficiently available and affordable to date, such coverage is highly influenced by the development of loss data which has yet to be fully quantified due to a lack of historical information.

IV. Affordability of Coverage

Transportation Network Companies

The affordability of the coverage required by the Act does not appear to be an issue at this time. The cost of the required insurance is built into the TNCs business model.

Transportation Network Operators

The Insurance Administration has not received any complaints concerning the affordability of coverage. Even so, as with any motor vehicle liability insurance policy, the cost of the required coverage is determined by numerous rating factors which may significantly vary among insurers. These rating factors may include, but are not limited to: the driving record and claims history of the insured operator; the year, make and model of the vehicle; the garaging location of the vehicle; and, credit.

At present, it appears that rates offered by the two admitted carriers are somewhat lower than traditional commercial automobile programs in the livery / public transportation market segment. It is not unusual for an insurer entering a new market segment to be aggressive with rates in order to attract an initial book of business. It remains to be seen whether the transportation network services industry will have similar, better, or worse loss results than, similar public transportation segments such as the taxi industry.

³ The Maryland Automobile Insurance Fund is not considered an admitted or non-admitted insurer. An admitted insurance company is one that follows state laws for insurance providers, while a non-admitted company operates without submitting to state requirements. In 1972, the General Assembly, by way of House Bill 444, created MAIF in response to the State’s need for a mechanism by which insurance would be available for all Maryland citizens in order to comply with the State’s new compulsory insurance law. MAIF is an authorized independent Maryland state provider that issues and underwrites auto liability insurance for Maryland drivers who cannot obtain auto insurance on the private market. MAIF operates as an independent agency of the State of Maryland.

V. Methods To Increase the Availability of Coverage

While the Insurance Administration has concluded that the availability and affordability of coverage offered by admitted insurers in the State of Maryland for the transportation network industry appears to be sufficiently available and affordable to date, we have also noted that there are just two admitted insurers and MAIF providing a product for a TNO which covers all three Phases of operation. Availability could be adversely impacted by the withdrawal of just one insurer or the tightening of underwriting eligibility guidelines. It would be beneficial if additional insurers elect to enter this market segment and the Insurance Administration intends to assist in this process.

Admitted carriers without a history of participation in the overall commercial auto market and the public transportation segment must first conclude that there is an opportunity for underwriting profit in the transportation network services industry. Among other things, the Insurance Administration intends to continue to enhance its procedures in order to further improve its processes for rates and forms filing and review. It is the Insurance Administration's expectation that this will be of assistance to insurers wishing to enter into this market segment. The Insurance Administration intends to keep industry fully informed as to our efforts in this regard.

VI. Conclusion

In accordance with the requirements of the Act, the Insurance Administration will provide its next report on this subject on or before July 1, 2017, with subsequent annual reports each year through July 1, 2021.