

**Task Force to Study Methods to Reduce the Rate of
Uninsured Drivers**

Maryland General Assembly
Task Force to Study Methods to Reduce the Rate of
Uninsured Drivers
2014 Membership Roster

Senator Thomas M. Middleton, **Co-chairman**
Delegate, **Co-chairman (vacant - resigned)**
Senator Catherine E. Pugh
Delegate Sally Y. Jameson

Maryland Insurance Commissioner's Designee: Sandra Castagna

Motor Vehicle Administrator: Milton Chaffee

Secretary of State Police's Designee: Captain Michael J. Brady

Maryland Automobile Insurance Fund Executive Director's Designee: Mark D. McCurdy

Job Opportunities Task Force Executive Director: Jason Perkins-Cohen

Representatives of the Companies Writing Private Passenger Motor Vehicle Insurance:

Christopher Gude (State Farm Insurance Company)
Larry E. Hinton, Esq. (Geico Insurance Company)
John Bankard Stansbury (Agency Holding Company)

Representative of a Consumer Advocacy Organization:

Martin Schwartz (Vehicles for Change)

Representatives of Motor Vehicle Insurance Producers:

Arthur W. Lambert (Lambert Insurance Agency, Inc.)
Michael J. McCartin (Joseph W. McCartin Insurance, Inc.)

Member of a Nonprofit National Motor Club Member Organization:

Ragina C. Averella (AAA Mid-Atlantic)

Member of the Bar of the Court of Appeals of Maryland, Representing Plaintiffs in Private Passenger Motor Vehicle Insurance Cases:

Gary J. Krupka, Esq. (Blibaum & Associates, P.A.)

Committee Staff (Department of Legislative Services):

Tami D. Burt, Robert K. Smith, and Richard L. Duncan

Committee Staff Assistance:

Philip Dacey, Esq., Motor Vehicle Administration
Nancy J. Egan, Esq., Maryland Insurance Administration



THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

Task Force to Study Methods to Reduce the Rate of Uninsured Drivers

December 31, 2014

The Honorable Thomas V. Mike Miller, Jr., Co-chairman
The Honorable Michael E. Busch, Co-chairman
Members of the Senate Finance Committee
Members of the House Economic Matters Committee

Ladies and Gentlemen:

The Task Force to Study Methods to Reduce the Rate of Uninsured Drivers respectfully submits its interim report. Since members of the task force were not appointed until late summer, the task force was not able to hold its first meeting until October 21, 2014. Subsequently, the task force held another meeting on November 10, 2014. At these two meetings, the task force heard presentations from the Motor Vehicle Administration, the Maryland Insurance Administration, the Maryland Automobile Insurance Fund, the Insurance Research Council, the Job Opportunities Task Force, the Maryland Consumer Rights Coalition, the Insurance Agents and Brokers of Maryland, and the Maryland State Police.

Under Chapter 41 (Senate Bill 153) of 2014, the task force is responsible for studying and making recommendations regarding the rate of uninsured drivers, deterrents and incentives that could be used in the State to the reduce rate of uninsured drivers, and methods to lower the cost of insurance.

The task force will resume meeting during 2015, possibly early in the year. A final report is due by December 31, 2015. If you have any questions, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in cursive script that reads "Thomas M. Middleton".

Senator Thomas M. Middleton
Senate Co-chairman

TMM:DDR/TDB/tas

Task Force to Study Methods to Reduce the Rate of Uninsured Drivers 2014 Interim Report

Charge

Under Chapter 41 (Senate Bill 153) of 2014, the task force is responsible for studying and making recommendations regarding the rate of uninsured drivers, deterrents and incentives that could be used in the State to reduce the rate of uninsured drivers, and methods to lower the cost of insurance. Specifically, in addition to any other relevant issue identified by the task force, the task force must consider the following.

Rate of Uninsured Drivers

- The rate of uninsured drivers in the State and other states and ways in which the rate is calculated by the Motor Vehicle Administration (MVA) and other entities; and
- the impact on calculating the rate of uninsured drivers in the State of insurers reinstating the insurance coverage of a driver, from the inception of the policy term, after the driver pays any delinquent insurance premiums and applicable fines, although the MVA considers the driver to be uninsured during the period of lapsed coverage.

Deterrents and Incentives

- The imposition of, or an increase in, fines and penalties on uninsured drivers and how money from the fines and penalties collected is used, or could be used, to reduce the rate of uninsured drivers;
- a requirement that a minimum fine or penalty, and reimbursement to the State for towing expenses, not be waived;
- the implementation of an insurance verification system that verifies the purchase of insurance on a motor vehicle at the time the motor vehicle is registered with the MVA;
- a requirement that a driver carry a card that shows evidence of insurance on the motor vehicle the driver is driving;
- the implementation of a police insurance verification system that links a license plate database to motor vehicle insurers' databases;
- the education of drivers, at the time of initial drivers' licensure, about the legal requirement to purchase insurance; and

- making the act of knowingly presenting a false or otherwise invalid evidence of insurance an offense under the Maryland Vehicle Law.

Methods to Lower Cost of Insurance

- The implementation of an insurance plan with lower required coverages for specified low-income individuals;
- the expansion of the personal injury protection waiver;
- the implementation of a pay-as-you-drive insurance plan; and
- the use of safe driving and other discounts that private passenger motor vehicle insurers may offer to their policyholders.

October 21, 2014 Meeting

At the task force's October 21, 2014 meeting, the co-chairs welcomed the members of the task force. The members introduced themselves. Ms. Tami Burt described the task force's charge and introduced a background paper and chart prepared by staff.

Ms. Christine Nizer, Chief Deputy Administrator, (MVA) described MVA's current activities aimed at reducing the rate of uninsured motorists and how MVA calculates the uninsured motorist rate.

- Insurance companies are required to immediately notify MVA electronically of lapses, terminations, reinstatements, policy changes, and new business for vehicles registered in the State. Maryland-registered vehicles are required to maintain liability insurance. Violators are flagged and fined. A tag pick-up order is issued if customer fails to comply. MVA has expanded the eFR program to include producers. MVA has made several system enhancements, including comparing the National Motor Vehicle Title Information System (NMVTIS) data against pending and open files for salvage and out-of-state transfers and adding tag information to the MVA database not only to capture the transaction date but also to capture the date a vehicle was purchased. Future MVA enhancements include web verification (secure interface with insurance industry allowing MVA to ping insurer databases for insurance verification); providing additional payment options for customers; and working with insurance companies to improve data reporting on the reason for cancellation.

- The formula for calculating the percentage of uninsured motorists is: divide the cases with penalty fees by the number of registered vehicles. In fiscal 2014, there were 200,157 total cases with penalties, 11.69% of the cases closed with penalty fees, the number of registered vehicles was 4.9 million, making the uninsured vehicle rate 4.11%.

Ms. Sandra Castagna, Associate Commissioner, Property and Casualty, Maryland Insurance Administration (MIA) described the types of required insurance coverages and MIA's regulation of private passenger insurance.

- Insurers are required to apply for certificates of authority from MIA for the lines of insurance they intend to underwrite. All insurers, including the Maryland Automobile Insurance Fund (MAIF), file their rates with MIA; while MAIF's rates are subject to prior approval, other insurers may use their rates as soon as they are filed. MIA reviews rates, including supplementary rate information, to ensure they are not inadequate, excessive, or unfairly discriminatory. MIA identifies and reviews all factors included in an insurer's rate filing and rating algorithms to determine compliance with insurance laws and regulations. Filings are complex (*i.e.*, credit scoring, tiering algorithms, and usage-based insurance data).
- All insurers' forms (about 158 insurers) must be approved prior to use; MIA reviews forms to determine compliance with insurance laws and regulations. MIA investigates complaints received from policyholders, claimants, and producers; examines the business practices of insurers and producers; and audits insurance company financials. The number of private passenger auto protests received (premium increases, cancellations, and nonrenewals) increased 2.4% from 2013 to 2014. Approximately 14.0% of protests are resolved in the insured's favor.

Mr. Bryson Popham, representing Insurance Agents & Brokers of Maryland, and Captain Thomas Williams, Commander, Regulations and Government Affairs, Maryland State Police, suggested, based on their respective experiences with dealing with uninsured motorists, two issues the task force should consider.

- Discussions between the agent/broker group and the Maryland State Police years ago lead to a preliminary draft of legislation that included two compliance and enforcement aspects. First, they suggest having a mandatory nonwaivable portion of the uninsured motorist penalty. Judges generally dismiss all uninsured motorist penalties on a driver who has secured insurance by the time the driver goes to court. Second, when an uninsured motorist gets to court, the judge dismisses the cost of towing the uninsured vehicle which results in the Maryland State Police paying the towing cost.

November 10, 2014 Meeting

At the task force's November 10, 2014 meeting, Senator Middleton welcomed the members of the task force and indicated that Delegate Rudolph resigned as a result of his loss in the election. The task force will resume meeting after a new House co-chair is appointed.

Mr. Mark D. McCurdy, General Counsel, and Ms. Sandra L. Dodson, Government Affairs, Maryland Automobile Insurance Fund (MAIF) provided, as the insurer of last resort, MAIF's observations, comments, and suggestions.

- MAIF's Insured Division acts as an insurance carrier, handling approximately 30,000 accident-related claims per year; the division paid \$4,117,568 in uninsured motorist claims in 2013. The Uninsured Division is a State fund administered by MAIF, helping compensate approximately 700 victims of uninsured drivers per year; the division paid \$1,655,220 to victims of uninsured drivers in 2013. MAIF's market share currently stands at 1.63% which has trended downward during the last eight years. MAIF has never used any State funds in its operations. MAIF has structured rates to be less costly. Financing of premium payments dominates the payment options since MAIF's installment plan has only recently been implemented; about 2.0% of policyholders use MAIF's installment plan. Ninety-five percent of MAIF policyholders buy the minimum policy limits (30/60/15). There is a high cancellation rate in the premium finance company business, typically around the fourth month of the policy term.
- The Insurance Research Council (IRC) reports that the percent of uninsured drivers in Maryland was 12.2% in 2012 (ranked as twenty-second highest in the nation). IRC calculates the uninsured driver rate by comparing the ratio of uninsured motorist claims to bodily injury claim frequencies. With 3.8 million registered non-commercial vehicles in Maryland in fiscal year 2104, a 12.2% uninsured rate translates to 463,600 uninsured motor vehicles on Maryland's roads. At the time of registration, MVA provides a sticker that is affixed to the license tag to show the date and year that the registration expires. As a way to have uninsured drivers "touch" government more often, the State could require an uninsured driver to renew the vehicle registration more often than every two years. MVA may need more tools. In a recent MVA match program notice, about 34.0% of the drivers who were not MAIF insured wrote on the registration application at the time they were at MVA registering their vehicles that they were insured by MAIF. The average cost of submitted medicals per claim increased significantly in 2011 due to the increase on January 1, 2011, of the bodily injury limits from 20/40 to 30/60.
- Solutions can be categorized in a three-prism approach to public policy – Educate, Enable, and Enforce. The cost of insurance is a deterrent in enabling some drivers to buy insurance. Uninsured motorist and personal injury protection account for 32.6% of the total liability premium – this protects the policyholder while the rest of the cost of insurance protects others. The fine structure may not be adequate since it may be cheaper to pay the fine than it is to get insurance. Perhaps an option is to have part of the fine assessed on an uninsured motorist go toward purchasing a policy for that uninsured motorist. For enforcement options, consumers

touch government in many ways: at registration, at an accident scene, at a traffic stop, getting an emissions inspection, and getting a driver's license.

Ms. Marta Harting, representing State Farm, Ms. Catherine A. Rankin, Counsel, State Farm, and Mr. Patrick G. Schmid, PhD, Director of Research, Insurance Research Council (IRC) provided information relating to IRC studies.

- As a public policy researcher, IRC has completed several studies (*Uninsured Motorists*, 2014 Edition; *Auto Insurance Affordability*; and *The Potential Effects of No Pay, No Play Laws*). IRC collects claim information from leading insurers – over 50% of the market is collected. They take claim frequency information for uninsured claims and bodily injury claims and then calculate a ratio. For 2012, Maryland's rate was 12.2%, while the nation was 12.6%. Maryland's trend is generally flat. Based on the uninsured motorist rates, IRC estimates that the number of uninsured in Maryland is about 638,025; the number of uninsured in the nation is estimated at almost 30 million.
- The cost of uninsured motorists on the roadways is hard to quantify given that there are direct and indirect costs. IRC estimates that the payment for uninsured motorist claims in Maryland for 2012 was \$38.7 million for almost 7,000 claims. Premiums in states with fewer uninsured motorists tend to be more affordable. IRC studied the No Pay, No Play Laws as an option about 10 states are using to lower the rate of uninsured motorists. These are laws that prevent uninsured motorists from collecting compensation for noneconomic damages arising from a traffic accident with an insured, at-fault driver. The theory behind these laws is: (1) fairness – if one does not pay into the system, then one should not benefit; (2) it was hypothesized that the law could lower percentages of uninsured motorists; and (3) it may reduce insurer losses and, therefore, lower premiums charged to insureds. The total compensation for noneconomic loss paid to the uninsured in Maryland was estimated at \$15.7 million in 2012. The findings indicate that there was a 1.6% decline of uninsured motorists in the states that have No Pay, No Play Laws.

Mr. Jason Perkins-Cohen, Executive Director, Job Opportunities Task Force (JOTF), provided observations, comments, and suggestions relating to JOTF.

- The focus should be on jobs as a way to decrease the uninsured rate. Being able to afford car insurance is important to getting a job. Seventy-two percent of workers get to work via an automobile. More than half of them work in a county that is different from the one in which they reside. If a person does not have a car, the person's job prospects are limited. Focus on "enabling," meaning making car insurance more affordable.

Ms. Marceline White, Executive Director, Maryland Consumer Rights Coalition (MCRC) provided observations, comments, and suggestions relating to MCRC.

- There are barriers to access to jobs. Maryland needs to ensure that people can afford car insurance. The Consumer Federation of American's 2014 survey shows that the average premium in Maryland is \$1,013 (sixth highest in the country). There are huge disparities based on geographic area. Focus should be "enabling." California has a low-cost program and also limits the use of rating factors tied to driving (*e.g.*, years licensed and miles driven). Ninety-four percent of those in California's program were not insured prior to getting insurance through the program. There should be an insurance policy that costs \$500 or less.

Mr. Arthur Lambert, President, Lambert Insurance Agency and Mr. Bryson Popham, representing the Insurance Agents and Brokers of Maryland, provided observations, comments, and suggestions from the producer's prospective.

- The cost of uninsured motorist coverage in Baltimore City is higher relative to other jurisdictions in Maryland. This is a major factor since it increases the economic burden on consumers. Suggestions include providing that a portion of the uninsured motorist penalty and towing costs are nonwaivable. There has been a vigorous debate on the use of credit in insurance. Maryland has one of the more restrictive laws on the use of credit.