

LARRY HOGAN  
Governor

BOYD K. RUTHERFORD  
Lt. Governor



AL REDMER, JR.  
Commissioner

NANCY GRODIN  
Deputy Commissioner

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December 7, 2016

The Honorable Larry Hogan  
State House  
100 State Circle  
Annapolis, MD 21401

Re: MSAR #10580

Dear Governor Hogan:

On behalf of the Maryland Insurance Administration, I am pleased to submit the *2016 Annual State Agency Report* for the Maryland Insurance Administration developed in accordance with the State Environment Article §2-1305, as defined in House Bill 514. This annual requirement, under the law that governs the Maryland Commission on Climate Change, asks that numerous state agencies submit annual reports on the progress surrounding the implementation of climate change programs to both the Governor and the Commission.

Sincerely,

A handwritten signature in black ink, appearing to read "AR", written over a horizontal line.

Al Redmer, Jr.  
Insurance Commissioner

cc: Ben Grumbles, Secretary, Maryland Department of Environment  
Sarah T. Albert, Office of Policy Analysis (5 copies)  
Nancy Egan, Director, Government Relations



Pay-As-You-Drive® Insurance in Maryland

2016 Annual Report

MSAR #10580

**Al Redmer, Jr.**

**Commissioner**

December 7, 2016

# **Pay-As-You-Drive® Insurance in Maryland**

## **Program Description**

Pay-As-You-Drive® automobile insurance is also known as use-based insurance. Generally, use-based insurance plans are designed to align the amount of premium paid with actual vehicle usage. The distance an automobile is driven, the speed at which it is driven, and the time of day it is driven all are factors that can be used to determine premiums under a use-based plan. Under use-based plans, the consumer generally uses a telematics device to provide information about the actual mileage and other driving behaviors to the insurance carrier. The carrier can use that information to adjust the price of coverage based on the degree of risk posed by the insured's actual driving behaviors.

As of 2016, twelve insurance companies offer a use-based insurance program for their private passenger insureds and eight offer these programs to their commercial insureds. This is a voluntary program. Consumers receive discounts off of their insurance premiums for participating in most use-based programs.

## **Program Objectives**

The Maryland Insurance Administration (MIA) continues to work with the carriers to increase the number of companies offering these programs.

## **Estimated Emission Reductions for CY 2015**

Due to the nature of this program, it is impossible for the MIA to measure the reduction. Even though it is unclear to what extent the Pay-As-You-Drive® Program will reduce GHG production, it is beneficial to encourage the expansion of these programs in the state in that they offer more options to consumers.

## **Obstacles/Considerations**

While there are no statutory or regulatory prohibitions to Pay-As-You-Drive®, any such program must operate within the confines of Maryland law. That being said, the following are a list of the obstacles/considerations that should be taken into account when reviewing these programs:

1. Pay-As-You-Drive® programs only produce financial rewards for individuals who drive short distances. Individuals lacking access to public transportation or alternatives to driving, such as those who live in rural areas or those who commute to work, will not be inclined to sign up for this type of program as it will not result in any cost savings to them.
2. Consumers may be concerned about the privacy issues surrounding these types of programs that utilize devices that monitor how, when and where they drive in order to justify the discounts provided.

3. Individuals who sign up for Pay-As-You-Drive<sup>®</sup> programs are most likely persons who drive a limited number of miles and, as such, the actual reduction in GHG may not add up to the volume projected.
4. The increased costs and expenses for insurers to develop alternative rating plans and the devices used to track and transmit this data may limit its availability and affordability.
5. The (in)ability to collect additional premiums from insureds who exceed the mileage limits, or to legally disclaim coverage if the insured vehicle is involved in an accident after it is discovered that the amount of mileage insurance purchased has been exceeded.
6. The (in)ability to properly rate policies when more than one vehicle or driver are on the policy. Different drivers present different risk factors, so it would be important for the insurer to know how many miles each insured person is driving each insured vehicle which may be almost impossible to determine.
7. Depending on the type of telematics device and whether it sends information to a carrier via wireless phone networks, the ability to remotely execute malicious code could interfere with the data and data transmission.