

EXECUTIVE SUMMARY

An Auto Insurance Lifeline for Safe Driving, Lower-Income Marylanders

by Douglas Heller, MPA

The Abell Report

Too many Maryland drivers face prohibitively high auto insurance premiums when trying to comply with the state's mandatory insurance law. For these residents, the options of not driving at all or driving uninsured in violation of state law come with deep downsides: economic immobility or expensive fines. Many other low- and moderate-income residents buy auto insurance for a time but simply cannot keep up with the cost of coverage, leaving them either intermittently uninsured or severely financially stressed. Embedded in this problem lies deep-seated racial inequities and discriminatory insurance pricing that have long hampered economic mobility in several African American communities of Maryland, especially Baltimore City. Notably, due to the rate structures of many auto insurance companies, the highest premiums in the state are often charged to those least able to afford coverage.

In 10 predominantly African American ZIP codes in Baltimore City, where good drivers face annual premiums in the thousands of dollars for the bare minimum of coverage, auto insurance has been deemed unaffordable by the U.S. Department of Treasury's Federal Insurance Office. Tens of thousands of motorists with spotless driving records cannot find insurance coverage in the voluntary market, often due to a low credit score or a lapse in insurance coverage in the past. These drivers turn to the state's insurance market of last resort, known as the Maryland Auto Insurance Fund, or MAIF. There they will find policies at high premiums that have been climbing rapidly in recent years. These price hikes accumulate on top of the premium increases that MAIF and voluntary market insurance companies imposed in 2011 after lawmakers increased the minimum coverage drivers must maintain. Under that change, Maryland now has the fifth-highest minimum auto insurance coverage requirement in the nation.

The consistently expensive premiums for motorists in some communities has been a much-discussed and debated topic among policymakers, but, despite a variety of "carrot and stick" efforts to reduce the number of uninsured motorists, approximately 12% of drivers on Maryland roads remain uncovered. The state needs new approaches to this persistent problem in order to improve economic opportunities, address inequities, and reduce the number of uninsured drivers in the state. In short, hundreds of thousands of Marylanders need an auto insurance lifeline to help them confront the crisis of auto insurance unaffordability.

By the Numbers

\$912

Additional auto insurance premium charged to a family in Prince George's County over statewide media price

\$2,330

Additional auto insurance premium charged to a family in Baltimore City

94%

Increase of average premium for safe drivers in predominantly African American ZIP codes of Baltimore region compared with predominantly white ZIP codes

\$2,500

Maximum penalty for driving uninsured in Maryland

334,000

of Baltimore residents living in 10 ZIP codes deemed to have unaffordable auto insurance by US Department of Treasury

129%

How much more a Maryland driver with a perfect driving record and a poor credit score pays for insurance than a driver with a drunk driving conviction but an excellent credit score

The California Low Cost Automobile Insurance Program offers a model that could be adapted to the Maryland market. This program, which has covered more than 150,000 low-income Californians, makes a bare bones auto insurance policy available to qualifying good drivers for less than \$500 per year, even in traffic-intense Los Angeles. Although there are no subsidies of these policies, the premiums remain low due to the unique structure of the program:

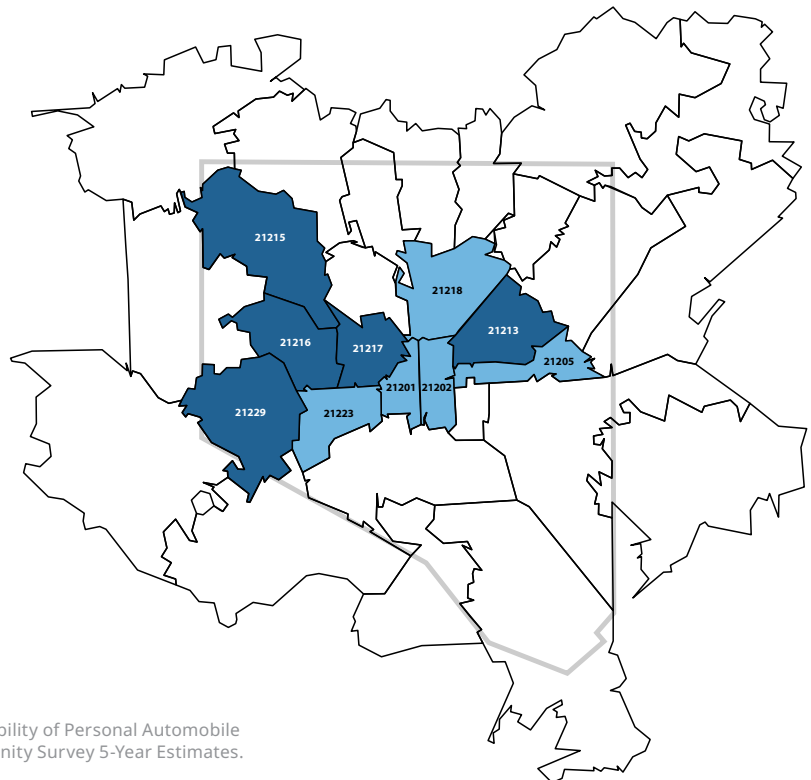
- Policies are only available to safe drivers;
- The amount of coverage provided is less than the minimally required coverage otherwise mandated by California law; and
- The rates are established to cover claims, expenses, and agent commissions but not to provide a profit for insurance carriers, which are required to participate in the state's residual market, sometimes called the market of last resort.

The full report details key aspects of the auto insurance affordability problem in Maryland and explores the California Low Cost program as a model for the state. It identifies challenges faced and lessons learned from the California experience and suggests approaches and adaptations to the California program that would be appropriate for the Maryland market. It also considers and addresses potential public policy concerns, particularly related to the impact of allowing some drivers to purchase auto insurance with lower liability limits than state law requires.

The creation of a Maryland Lifeline Auto Insurance program for lower-income, safe drivers, the full report concludes, will not likely eradicate the whole of the uninsured motorist problem, but it would confront discriminatory pricing in the market and provide an important opportunity for many thousands of Maryland drivers to improve both their literal and economic mobility.

Auto Insurance Premiums are Considered Unaffordable in 10 Predominantly African American ZIP Codes

- Over 50% African American
- Over 75% African American



Source: Federal Insurance Office, 2017. Study on the Affordability of Personal Automobile Insurance. U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates.