

Actuarial Discrimination: City Residents Pay Up To 198% More For Car Insurance Than County Residents

The facts, consequences, and recommendation for resolving.

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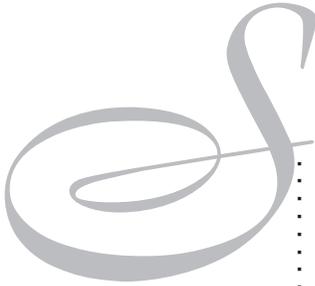
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Introduction



1. SUMMARY

Paying More to Drive

Consider two 30-year-old women. Each is single and has an unblemished driving record. Each drives to work in a 2002 Toyota Camry insured by Geico General Insurance Co., one of the largest insurers in Maryland. One woman pays \$798 annually for her insurance policy; the other pays 70 percent more – \$1,359.

The 70 percent difference in cost stems from a single factor – where the two women live. The first woman lives in Timonium, two miles outside the Baltimore Beltway. The other lives nine miles to the south, in Charles Village, a rowhouse community in North Baltimore.¹

For tens of thousands of drivers in Baltimore City, such numbers are part of a distressing financial reality: Automobile insurance is far more expensive for Baltimore City residents on average than for other Maryland drivers.

For example, a two-car family in north-central Baltimore City will pay at least \$2,399 for insurance; the same family could get the same coverage for as little as \$1,626 if it lived in Cockeysville, or as little as \$1,385 in Carroll County.

Drivers who live just inside the Baltimore City limits can pay hundreds of dollars more than neighbors across the street who happen to live in Baltimore County. Even within the city of Baltimore, there can be tremendous premium variation. Depending on which side of Charles Street they live on, residents near Loyola College can save hundreds of dollars a year on their insurance, simply because their house falls in a certain zip code.

While individual rates will vary significantly, a driver who lives in the middle of Baltimore will pay, on average, nearly 60 percent more for automobile insurance than that same driver would pay living a few miles north, in Baltimore County. That driver will pay between 80 percent and 100 percent more than he would if he lived in Carroll County.² [See Table 1]

Table 1: Baltimore City average rates compared to those in Baltimore and Carroll counties

Type of Driver	Baltimore City Rate in Zip 21218	Baltimore County Rate in Zip 21030	Baltimore City rate compared to Baltimore County	Carroll County Rate in Zip 21157	Baltimore City rate compared to Carroll County
Family of 3 with 2 cars	\$5,833	\$3,651	160 %	\$2,942	198 %
Single male, Age 23	\$4,577	\$2,934	156%	\$2,520	181%
Single female, Age 30	\$1,898	\$1,204	158%	\$1,005	189%

Source: Maryland Insurance Administration Comparison Guide for Maryland Auto Insurance. August 2004.

Note: Rates listed reflect average of rates listed by the state's 10 largest insurance companies. Rates effective July 1, 2003.

The dramatic differences in insurance costs are due in large measure to the insurance industry's reliance on territorial rating. While common sense would suggest that a person's driving record, how many miles he drives each year and his experience behind the wheel should be the determining factors in insurance rates, the reality is that a more important factor is where that driver lives. And in Maryland, the worst place to live when it comes to automobile insurance premiums is the city of Baltimore.

Insurance companies and some regulators defend the practice of territorial rating because it is based on the number and size of claims filed by drivers who live in a particular territory. However, as shown in later sections of this report, the map lines used to establish rating territories in Maryland are often arbitrary ones that lead to sharp premium differences.

A System Stacked Against Low-Income Drivers

Territorial rating is only one problem facing Baltimore City drivers. As with so many financial matters, these problems fall hardest on low-income drivers. The reality is that public transportation fails to meet the needs of many city residents, particularly those who commute to jobs in the suburbs. For many, driving is the only practical way to hold down a job. Yet, many cannot afford mandatory insurance that would allow them to drive legally. State data produced in 2001 suggested that the average premium in some low-income areas of Baltimore City is equivalent to 10 percent of the average family's household income – far too much for many families to consider.

Some low-income drivers also are being hit with higher premiums at least indirectly because they are poor. This happens as auto insurance companies turn increasingly to the use of a driver's credit history to set auto premiums. Insurers justify the practice with studies that have found a correlation between a driver's history of paying bills and his likelihood of filing an insurance claim. Whatever the true nature of that correlation, there is evidence that the use of credit histories tends to fall most heavily on low-income drivers, that is, those most likely to be unable to pay their bills.

Finally, drivers who lose their insurance because of poor payment history often have no option but to sign up with the Maryland Automobile Insurance Fund (MAIF), the state's insurer of last resort, which typically charges significantly higher premiums

than for-profit companies. Along with higher premiums, insurance with MAIF almost always comes with other hidden costs. A longstanding and problematic section of state law prohibits MAIF from allowing its customers to pay insurance bills in installments, as standard companies typically do. Without the money to pay an entire premium in advance, these customers must instead borrow from high-cost finance companies, adding hundreds of dollars in interest and fees to the cost.³ Given the initial cost and the substantial financing fees, it is no surprise that fully half of all MAIF customers simply cancel their policies within three months, presumably after they have registered their cars.

An Un-insured Epidemic

All of these factors churn together to create rates so high that many Baltimoreans ignore the law and drive without insurance. If the choice for them is between paying the rent or buying food and paying an insurance premium, the insurance will be one of the last bills to be paid.⁴

The net result: Nearly one in four drivers in Baltimore is uninsured.

That figure comes from data compiled by the Insurance Research Council (IRC), which estimated that 23.2 percent of drivers in Baltimore in the mid-1990s were uninsured.⁵ This is not a new problem for Baltimore. An industry-backed report from the late 1980s showed that among major cities, Baltimore had the highest rate of uninsured motorist claims in the nation.⁶ Statewide, the IRC estimated that nearly 18 percent of Maryland cars were uninsured.⁷

That 23.2 percent figure for Baltimore compared favorably to the rates for some other cities, and unfavorably to others. The IRC figure for Philadelphia was 34.1 percent; Kansas City, 23.6 percent; and the District of Columbia, 23.3 percent. Pittsburgh was far lower, at 8.1 percent, while the borough of Manhattan in New York City had an estimated uninsured rate of 11.2 percent.

The highest uninsured rate in Maryland, as determined by the IRC, was not in Baltimore City, but in Prince George's County, which had a rate of 23.4 percent for communities generally outside the Washington Beltway, and a figure of 39 percent for those inside the Beltway.⁸ Looking at Baltimore City, if detailed data were available, we can assume it would show that certain areas have far higher rates of uninsured motorists than others.

Those who opt to drive illegally may have little choice, but they put themselves in financial jeopardy. Drivers who fail to obtain insurance risk large fines, which only worsen their financial situation.⁹ Of course, uninsured drivers inevitably cause rates for other drivers to increase in the form of higher uninsured motorist premiums.

A broken system

For many Baltimore City residents, the state's insurance system is broken and out-of-date. There are two main problems. The law requires all drivers to be insured; yet insurance is simply too costly for many drivers. And those drivers, as noted above, pay far more on average than drivers outside Baltimore City, creating another disincentive to live in a city attempting to attract and hold onto residents.

When Baltimore residents cite their concerns about city living, they usually put crime and education at the top of the list. The cost of automobile insurance, while not as pressing as those two concerns, nonetheless remains a significant irritant to city residents and an obstacle to Baltimore City's ongoing efforts to maintain and attract residents. But we note without cynicism that the statistics suggest that high-priced automobile insurance is no longer an irritant for many Baltimore City drivers; instead, they simply drive without it.

The last serious State House discussion of the high cost of insurance in Baltimore City took place almost a decade ago. In that case, a major reform bill proposed by a special commission and supported by the governor and mayor of Baltimore was torpedoed by a well-financed and wide-ranging group of special interests, including trial lawyers, health care providers and insurers. The issue has barely surfaced in Annapolis since.

Community groups occasionally complain about the cost of driving for Baltimoreans, and candidates for municipal office sometimes bring up the topic. A Baltimore Circuit Court judge grew so outraged by the flood of automobile-related lawsuits in the courts that he instructed a grand jury to examine the issue.¹⁰

But policymakers do little.

Reforms elsewhere

Like Baltimore, urban areas across the country must cope with high automobile insurance costs. Unlike in Maryland, policymakers in some of these states have confronted the problem, taken action and made progress.

California, New Jersey and Pennsylvania have sought to help city dwellers and low-income drivers afford insurance. In some cases, the state has reduced the amount of insurance it requires motorists to carry. In others, motorists can give up the right to sue for damages in auto accidents in exchange for significantly lower premiums while some states encourage groups to use their collective buying power to reduce the premiums members of the group must pay. And several states are exploring new technology that tracks driving habits and may lead to major changes in how automobile insurance is priced.

Meanwhile, consumer groups and minority drivers are going to court to protest what they believe are unfair or racially discriminatory rate-setting practices, including territorial rating.

In no case has change come easily. Powerful interests inevitably line up to oppose reform. In Maryland, many people and institutions profit from the current insurance system, meaning any reforms will inevitably cause significant friction. But, change can happen, a long as there are committed leaders willing to make the case – again and again, if necessary – for a more affordable system.

2. Why are rates so high in the city?

Like 45 other states, Maryland requires drivers to carry liability insurance on their vehicles, to compensate others for personal injuries and physical damage they cause. The amount of insurance coverage required varies considerably from state to state. Maryland requires at least \$20,000 in coverage for injuries to one person and \$40,000 for injuries to two or more people; and at least \$15,000 in coverage for physical damage caused in an accident. Twenty-nine states have at least one higher minimum coverage requirement than Maryland does. The other states have either the same or lower requirements.

Maryland, like 19 other states, also requires drivers to carry uninsured motorist coverage, which compensates them for injuries and damages caused by an uninsured driver. However, Maryland drivers are no longer required to carry full personal injury protection coverage – a type of no-fault insurance coverage – which is generally used to pay medical bills and to make up lost wages for people injured in an accident.¹¹

To get a grasp of some of the underlying reasons for high insurance costs in Baltimore City, it is necessary to rely on information provided by the insurance companies doing business there. Maryland, as a state with a “competitive rating” system for premiums, allows companies to raise and lower rates as they deem necessary.¹² Those proposed rates and actuarial information to back them up are reviewed by the Maryland Insurance Administration to ensure that the rates are not “excessive, inadequate or unfairly discriminatory.”

Overall, Maryland’s average insurance premium was \$853 in 2001, the most recent figures available from the National Association of Insurance Commissioners – making Maryland insurance, on average, the 14th most expensive in the nation.¹³ By comparison, New Jersey drivers paid the highest average premium – \$1,183. As in other states, the average premium in Maryland decreased in the late 1990s – thanks in part to the large gains being achieved by industry investments – but began to creep up again in 2001 and 2002. Overall, between 1998 and 2002, the average Maryland premium increased by 8.8 percent.

Table 2: BODILY INJURY CLAIMS HISTORY: Maryland, 1995-1997

Territory	Earned car years	Claim Frequency	Claim Severity	Average Loss Cost
Baltimore City	481,112	4.88	\$6,190	\$302
Baltimore County Inner	1,263,783	2.75	\$6,731	\$185
Montgomery County Outer	425,068	1.99	\$8,386	\$166
Prince George's County Outer	515,522	2.27	\$7,968	\$181
Baltimore County Outer	696,962	2.12	\$7,718	\$163
Montgomery County Inner	736,141	2.14	\$7,606	\$162
Prince George's County Inner	562,724	3.13	\$7,285	\$228
Eastern Shore	588,177	1.38	\$8,877	\$122
Rest of State	3,534,719	1.82	\$7,859	\$142
MARYLAND TOTAL	8,804,208	2.26	\$7,454	\$168

Source: Insurance Research Council, "Trends in Auto Injury Claims, 2002 edition"

- Notes:
1. Claim frequency is the number of claims per 100 insured drivers.
 2. Claim severity is the average loss paid per claim.
 3. Average loss cost is the average amount of loss per year per insured car, including cars not involved in accidents.
 4. One "earned car year" denotes a car insured for a 12-month period in that jurisdiction.

In Baltimore City, premiums have remained considerably higher than the statewide average. In 2001, data presented by the Maryland Insurance Administration showed that the average premium in parts of central and northwest Baltimore were 60 percent higher than the statewide average. If the rates charged in Baltimore and other high-cost areas were not included in the calculation, the average premium for the rest of the state, or course, would be somewhat lower.

The key factors in those higher premiums, according to insurers, are the number and cost of claims for drivers who live in Baltimore City. In short, drivers who live in the city tend to file more claims than drivers who live in other parts of Maryland; and the claims they file tend to cost the insurer more money per policy.

In a 2002 report by the Insurance Research Council tracking claims by drivers within Maryland rating territories, drivers living in Baltimore City had the highest frequencies of bodily injury, property damage and personal injury protection claims of any territory in the state. Table 2 depicts the average bodily injury claims frequency, claims severity, and average loss cost for various areas of the state, along with statewide averages.

The chart shows that bodily injury claims in Baltimore City are not as costly for insurers as those in other jurisdictions. Experts say this is because accidents in the city tend to be less serious than those in suburban or rural areas, where greater speeds are more common. However, Baltimore City residents were more likely to file a bodily injury claim than were residents of other areas, and each policy written in Baltimore City led to higher average bodily injury losses than a policy written for a driver elsewhere in Maryland. For each insured car in Baltimore City, insurers paid out, on average, \$302 in bodily injury claims; the next highest such ratio was in the inside-the-Beltway area of Prince George's County, where bodily injury payouts amounted to \$228 per insured car.

The insurance industry compares the number of bodily injury claims to the number of property damage claims, in which the only claims are for damages done to a vehicle. Bodily injury claims – which include medical bills, physical therapy, lost wages and payments for pain and suffering – are more expensive, on average, than property damage claims.

According to the IRC, Baltimore City drivers filed 67.2 bodily injury claims for every 100 property damage claims, between 1995 and 1997.¹⁴ That rate in Baltimore for such claims was roughly twice as high as the statewide rate.

Along with bodily injury claims, IRC statistics show that Baltimore City drivers are more likely to file claims for property damage and for medical claims under personal injury protection coverage.

Tort system costs

While drivers in Baltimore City may be more likely to file insurance claims, Maryland's tort system provides financial incentives to people injured in automobile accidents to drive up medical bills and related costs. Under the prevailing system, when a lawsuit is filed seeking damages after a car accident, the injured party is entitled to compensation for medical expenses, physical therapy and other costs. Typically, those bills are, in turn, used to determine an additional payment for pain and suffering. One rule of thumb holds that a person's pain and suffering payment will be two or three times the total medical and therapy bills. Lawyers representing the injured party typically receive their fee out of any pain and suffering award, usually about one-third of the claim. In those cases, it is in both the plaintiff's and his lawyer's financial interests to drive up medical costs as high as possible.

During the 1996 session of the General Assembly, compelling testimony was presented detailing apparent abuses designed to pad claimants' medical bills. In one example, a minor accident that caused only \$25 in damage to a bumper resulted in \$15,000 in bodily injury claims from six occupants of the car, claims that included repeated heat pack treatments over a six-week period, at a cost of \$30 each.

Compounding that situation, under Maryland law, a person injured in a car accident and who has his own health insurance to cover his medical costs is nonetheless entitled to have the responsible automobile insurance company also pay for his medical bills. In other words, the injured party's medical bills are paid twice, with one payment going to the health care provider and the second one going to the victim. Two dozen states have legal provisions to restrict these double payments from what are termed "collateral sources."¹⁵

Some states, such as Pennsylvania, have moved to control medical costs by limiting insurance payments for medical fees to those authorized through the federal govern-

ment's Medicare program. Another option for reducing claims costs is to require claimants in accident cases to be treated through a managed care organization, particularly for hard-to-prove soft tissue injuries such as sprains. A handful of states have passed laws allowing insurance companies to offer lower-cost policies that require an accident victim to receive treatment for some injuries from a managed care organization. The Maryland General Assembly considered the idea in the mid 1990s, but abandoned it under intense opposition from chiropractors and others.

Some people involved in the industry maintain that there is a widespread attitude in the Baltimore area that being in an automobile accident, no matter how minor the injuries, is akin to "hitting the lottery," in the word of one insurance company official.

That should not be a surprise. Residents of Baltimore are bombarded with advertisements from lawyers seeking the business of people injured in auto accidents. And insurance companies complain that despite prohibitions, "runners" still rush to accident scenes to pass out phone numbers for lawyers to people involved in the mishap. Insurance industry studies show that a significant number of policyholders say that it is acceptable to pad their insurance claims to make up, in part, for the premiums they have paid over the years.

Those plaintiffs and trial lawyers who abuse the system by running up medical costs and pain-and-suffering awards obviously have only their own best interests at heart, and pay little attention to how such legal maneuvering contributes to the high cost of insurance for everyone.

Fraud and theft

Experts agree that automobile insurance fraud is common and may account for as much as 20 percent of a premium. At one extreme are faked accidents and elaborate schemes to defraud insurance companies. At the other are cases mentioned above in which medical bills are padded and injuries exaggerated to secure larger payments from insurers.

Maryland has a unit within the insurance administration (in conjunction with the attorney general's office) to investigate and prosecute insurance fraud cases. The office concentrates on fraud cases involving significant amounts of money, including staged accidents and thefts by insurance agents.

However, the division has significantly fewer investigators than it did several years ago and the office cannot pursue many cases due to a lack of personnel.¹⁶ The office also does not have up-to-date computer systems that would allow for better tracking of cases and analyses to spot trends; such systems are available on the market, but would require additional funding from the state.

Table 3: Auto Thefts in Baltimore Area, 1994 - 2003

Jurisdiction	Thefts 1994	Thefts 2003	% Reduction
Baltimore City	13,603	6,096	55 %
Baltimore County	6,289	3,341	47
Anne Arundel	1,806	1,441	20
Harford	403	330	18
Howard	1,157	682	41
Carroll	169	143	15

Source: Maryland Vehicle Theft Prevention Council

Baltimore City has made important progress in one area. Thanks to additional attention and enforcement by police agencies, auto thefts in Baltimore City declined significantly over the last decade. In 1994, police reported 13,603 stolen vehicles in the city, according to the Maryland Vehicle Theft Prevention Council. That number declined in all but two years in the decade since, and last year, 6,096 vehicles were reported stolen in Baltimore City. The state as a whole also saw a drop in the number of stolen vehicles since 1994, although the drop was less pronounced.

The reduction in auto thefts is particularly significant, given that it came during a time when the number of vehicles registered in Baltimore City increased – from 263,000 in 1994 to 286,000 last year. This successful reduction in thefts should have moderated the cost of comprehensive insurance in Baltimore City; however, the state has not analyzed rate filings to determine how the anti-theft effort has affected premiums.

The Council provides grants to local police agencies to battle auto theft. However, the Council's state funding has decreased from \$2 million to \$1.3 million in recent years, reducing the assistance the Council can provide to local police. While Baltimore City and Baltimore County have continued to fund anti-vehicle theft efforts, despite a reduction in funding from the Council, other jurisdictions, notably Prince George's County, have not. In that county, the result has been astonishing. The number of vehicles stolen in Prince George's County increased from 8,619 in 1999 to 17,628 last year.

3. Where you live affects your bottom line

Maryland law allows insurance companies to take a variety of factors into account in establishing a policyholder's premium. Among them are the driver's safety record, his age, the kind of car he drives, his marital status, and, in many cases, his credit rating.

But just as important as all of those factors is where the driver lives. Maryland law provides no rules on the drawing of rating territories and leaves the matter up to insurance companies, which take different approaches. In many cases, the territories correspond to jurisdictional boundaries; in other cases, the boundaries reflect rivers or zip code areas.

State Farm Mutual Automobile Insurance Co., by far the largest insurer in the state with 20 percent of the market in 2003, divides Maryland into 16 territories. One territory encompasses only Washington County in Western Maryland. Baltimore County, meanwhile, is split between three territories.

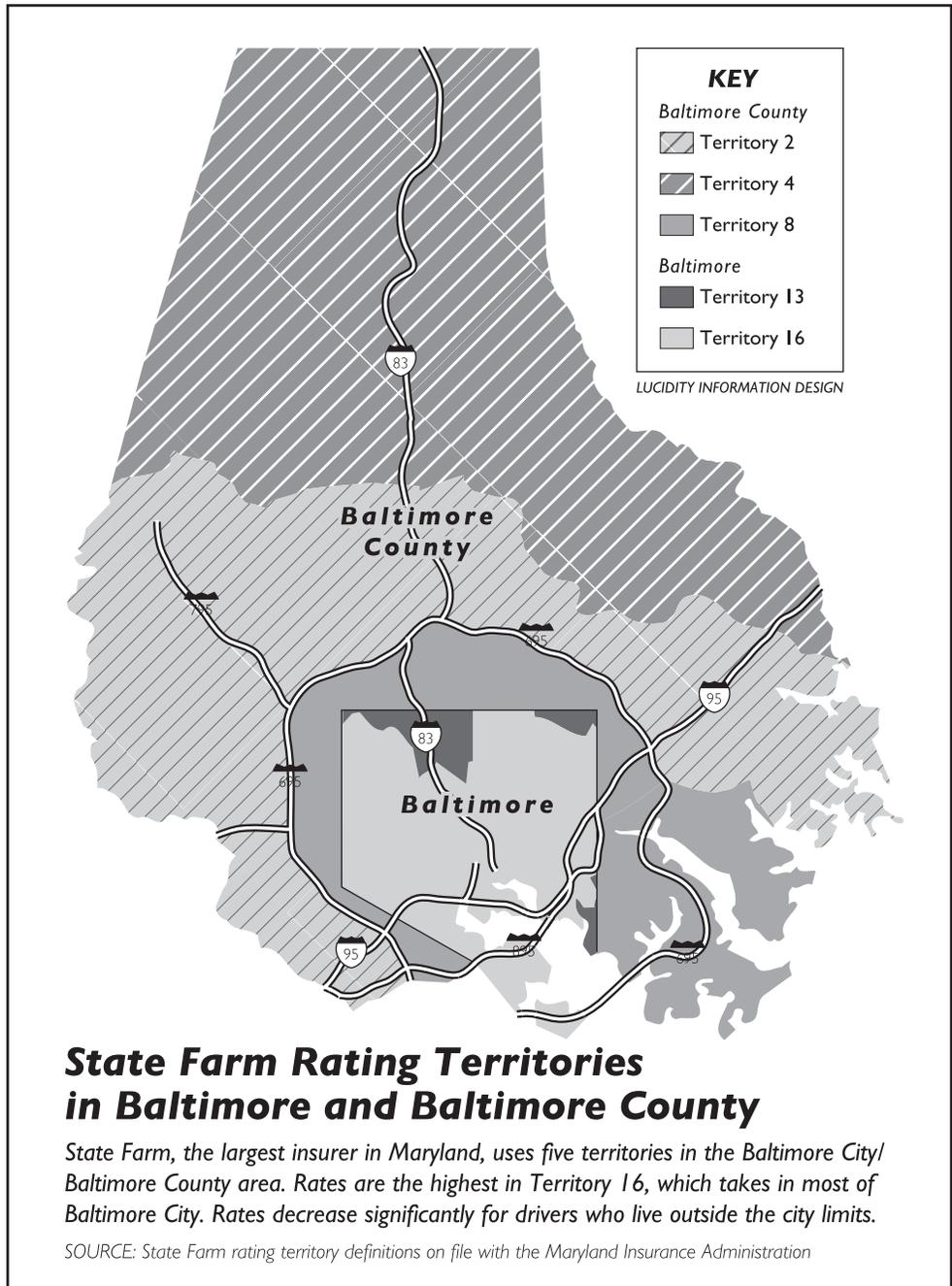
State Farm divides Baltimore City into two territories. One, Territory 16 takes in the majority of the city. The rest of Baltimore City is in Territory 13, which takes in five separate chunks of the city, none contiguous to any other, on the northern and eastern edges of the city (see map). That territory, which has significantly lower insurance premiums than Territory 16, takes in such neighborhoods as Guilford, Roland Park, Mount Washington and parts of Parkville, Rosedale and the portion of Baltimore City that borders Dundalk.

A deeper look at these two State Farm territories provides interesting findings. Using Census data broken down by Zip Code Tabulation Areas, which coincide closely to postal zip codes, it is estimated that Territory 13 has about 81,000 residents. Territory 16, which includes the city's most impoverished neighborhoods, is seven times larger, with about 570,000 residents.

Insurance companies are prohibited by law from considering the race of its policyholders in setting rates. However, some statistical analysis is revealing. Using the same Census figures, we estimate that State Farm's Territory 13 has a white population of approximately 57 percent. By comparison, Territory 16 has a white population of about 28 percent.

Those drivers fortunate enough to live in predominantly white Territory 13 will pay roughly 19 percent less for State Farm's liability coverage, 26 percent less for comprehensive coverage and 57 percent less for personal injury protection coverage than similar drivers who happen to live in predominantly black Territory 16.¹⁷ In other words, State Farm's rating territories create a significant imbalance in rates between a predominantly black part of Baltimore City and a predominantly white and largely affluent section of the city.

This imbalance is particularly striking when we look more closely at the data. State Farm splits only one zip code within Baltimore City between the two territories. Residents of zip code 21212 who live on the west side of York Road are part of Territory 13. Those east of York Road are in Territory 16.¹⁸ Using Census figures, we



can estimate that 9,200 people live west of York in zip code 21212; of them, 80 percent are white; the median household income in that area is \$72,700. Of the estimated 15,100 people who live east of York in that zip code, 82 percent are black. The median household income in that area is \$35,170, less than half of the area across York. Despite earning, on average, half of what their neighbors across York Road earn, those drivers in the east side of zip code 21212 will typically pay hundreds of dollars more for insurance.

But this is not a question about State Farm alone. For example, in 2001, the former state insurance commissioner testified before a General Assembly committee in favor of limiting the premium impact caused by territorial rating. The use of such territories, he testified, was unfair and led to significant premium discrepancies that penalized minorities and low-income drivers.

Data prepared by the then-commissioner's staff showed that in zip code 21217 in Baltimore (taking in Bolton Hill, Reservoir Hill and other neighborhoods) – an area with a population that was 92 percent black – the average insurance premium was \$1,357.¹⁹ Just north, in 21210, which takes in Roland Park and has a nearly all-white population, the average premium was \$972, almost 30 percent less.

The MIA provided interesting data on driver income as well. In zip code 21210, the average household income was \$45,998; that meant that the average premium of \$972 equaled 2 percent of each household's income, according to the insurance commissioner's testimony. In 21217, the average premium of \$1,357 represented more than 9 percent of the average household income of \$14,813. In other words, on average, almost 10 percent of a family's income would have to go to car insurance, a steep price for a product mandated by state law.²⁰

These premium differences within Baltimore City raise serious questions. However, the fact remains that all city residents are at a disadvantage when it comes to rates compared to their neighbors in Baltimore County and other suburban jurisdictions. While Roland Park residents may consider themselves fortunate compared to Bolton Hill residents, they still pay about 20 percent more than their neighbors to the north, who happen to live across the boundary line in Baltimore County. And, of course, rates are significantly lower for drivers living farther from Baltimore.

The insurance industry contends that the claims history in City justifies the higher premiums. But those rates also amount to a hidden tax on what is a legally required item for Baltimore City car owners. It is also an unavoidable one for many Baltimore City residents who cannot afford the housing costs elsewhere.

· **Arbitrary lines**

· State law forces insurance companies to defend geographic-based premiums by citing
· “underlying risk considerations,” a phrase that appears in the Maryland code but is
· not defined. To meet that standard, insurance companies cite claims experience to
· justify the rates they set for their various territories. This report does not attempt an
· actuarial analysis of rate filings by any state insurer. However, it is important to point
· out the arbitrariness of these boundary lines.

· State Farm, the state’s largest insurer, has been using the same territories for
· Maryland since 1982 – despite significant demographic changes during that time. In
· the 22 years since the maps were first established, the city of Baltimore has lost
· almost 150,000 residents, or 19 percent of its population. That loss of population has
· created a much higher concentration of low-income families in many parts of
· Baltimore – families that are often hard-pressed to meet their basic financial needs,
· including automobile insurance. Similarly, in 1982, Baltimore City had 341,000 regis-
· tered vehicles. By last year, that number had dropped to 286,000.

· State Farm officials explain that they use recognizable boundaries (such as zip codes
· or jurisdictional lines) to set territories. The company, though, does not have any
· standards for how much population a territory should have.

· While State Farm takes one approach, other insurers take others. Insurance Services
· Office Inc. (ISO), a New Jersey-based firm, provides actuarial analysis for several com-
· panies in Maryland. These insurers, including such companies as USAA Group, CNA
· Insurance Companies and Liberty Mutual Insurance Cos., set their own premiums,
· but use the ISO claims-loss analysis to do so.

· ISO divides the state into 19 territories, which are in turn broken down into 33 total
· territories and sub-territories. The territories can vary significantly in size. The largest,
· Territory 26, takes in a huge swath of suburban and rural Maryland, including parts of
· Montgomery, Baltimore, Harford and Cecil counties. Within that territory, ISO-affiliat-
· ed companies had policies covering more than 185,000 cars in 2002.²¹

· While State Farm has only two Baltimore City territories, the map of Baltimore show-
· ing ISO territories and sub-territories looks like a patchwork quilt, with no fewer than
· 14 territories or sub-territories either entirely or partially within the city limits.
· Several of the ISO’s smallest Maryland territories are in Baltimore City. The smallest,
· Territory 35, includes only two residential zip codes, 21213 and 21218. Within that
· area, ISO-affiliated insurers insured only 5,600 cars, a tiny fraction of the cars covered
· in Territory 26. Industry experts note that small rating territories allow insurers to tar-
· get rate increases more precisely at areas that generate large claims losses. However,
· using such small territories can also severely penalize good drivers who happen to
· live in those targeted areas.

There is nothing sacrosanct about any insurer's territories; indeed, the state could be carved into any number of territorial arrangements. For example, there is no reason one territory could not take in both South Baltimore and northern Anne Arundel County. There appears to be no discernible difference in driving patterns or traffic congestion that sets the two areas apart.

Similarly, Baltimore City and Baltimore County could logically be considered a single rating territory. After all, many people routinely cross the dividing line to work, shop or for countless other reasons.

Consider the two theoretical female drivers cited at the beginning of this report. Let us assume that the Charles Village resident commutes to Timonium to work, while the Timonium resident commutes to Charles Village. In other words, they drive the same amount of miles along the same roads at the same time of day. Yet, the Timonium resident will still end up paying substantially less for insurance, since insurance companies do not typically factor in where a car is driven, only where it is garaged.

Insurance companies respond to critiques of their territorial rating practices by saying that they set rates that conform to claims-loss experience, and that their rates must be competitive in the marketplace. However, automobile insurance resembles few other products on the market, in that drivers are required to carry coverage. While the open market must play a role in setting premiums, the state has a strong policy interest in making sure that premiums are affordable for as many drivers as possible. To do that, policymakers must begin to scrutinize the territorial rating process, beginning with sometimes arbitrarily drawn maps that consign city drivers to high-cost zones and divide the city itself in ways that can result in higher premiums for low-income and minority drivers.

Competition should help

In 1995, the General Assembly acknowledged that automobile insurance rates in Baltimore City posed a problem. However, the legislature passed only modest changes to ease the problem, concluding that the goal should be to ensure that there was adequate competition in the Baltimore insurance market. A law passed that year requires some insurers to file annual statements with the state insurance commissioner detailing how they market their products to Baltimore City residents. The insurance commissioner is to review those marketing plans and order changes if the plans are insufficient.

Unfortunately for the public, the legislature acceded to industry requests and stipulated that those marketing plans are to be considered confidential documents that can not be made public. In any case, the provision now has little if any affect within MIA. In 2004, only two companies met the requirements of the law and were

required to file marketing reports. Even those were at least two months late being collected for review by the MIA, an indication that the issue is far from a priority with state officials.²²

As part of that 1995 legislation, lawmakers required the insurance administration to conduct a study of the market conditions in Baltimore City. The report has some relevance to today's insurance market and provides insights into trends that were apparent a decade ago.

The study found, for example, that insurance companies that worked with their own agents in Baltimore City – as opposed to relying on independent agents writing policies for a variety of companies – tended to have a higher market share in the city.

The study also found evidence of “a trend toward more nonstandard companies entering the urban market place.” Nonstandard refers to policies targeting drivers with sub-par driving records, poor payment histories, or no experience being insured previously. Nonstandard policies are more expensive, in general, than standard or preferred policies. Many major “standard” insurers also offer “nonstandard” policies, often through separate subsidiaries.

Unfortunately, the report did not analyze any data that would have given a better picture of the emerging nonstandard market in Baltimore City. That is, how many drivers in Baltimore City are ending up with nonstandard policies, and how does that percentage compare to drivers in the rest of the state? Was the emerging increase in nonstandard insurers justified, or did it suggest insurers were charging unfair prices to city drivers?

Since 1996, it appears that the MIA has not revisited the issue to study such important questions. Doing such a study today would provide a solid factual basis for further discussions of Baltimore's insurance situation.

State insurance regulators expressed confidence during interviews that there is adequate competition in Baltimore City. But the bottom line is that the public has little real understanding of the city's insurance market or the extent of competition there. State law prohibits the insurance administration from providing a breakdown on how many policies each insurer writes in Baltimore City. Nor does the administration track how many insurance agents – either company-affiliated or independent – are marketing policies in the city.

Anecdotally, insurance company officials note that several companies have expanded their efforts in Baltimore City, creating increased competition. However, these assertions are hard to quantify, and, more importantly, little is known about how such competition has affected premiums.

4. Credit Scoring

For some Baltimore City drivers, securing affordable car insurance has only become more difficult in recent years as insurers have made increasing use of a new rating factor – a driver’s credit score – to establish premiums. To justify the practice, these insurers point to industry studies that suggest that a driver with a poor credit score is more likely to file an insurance claim. With that knowledge in hand, many insurers of both homes and cars now collect credit history data on customers and applicants. Because of this practice, drivers with poor credit ratings can see their premiums climb, sometimes by hundreds of dollars.

In Maryland, the General Assembly took an important step to limit the use of credit scoring in automobile insurance in 2002. The new law prohibits insurers from canceling a policy or from increasing rates on an existing policy because of a poor credit score. However, the law allows insurers to use a driver’s credit score from the preceding five years in setting rates for any new business. The law allows insurance companies to tack on an additional 40 percent to rates for a new customer with a poor credit score. Once again, consider the two women cited at the beginning of the report. If the Baltimore City resident has a poor credit history and changes insurance companies, her new insurer could add a 40 percent surcharge to her policy. (The law also allows a 40 percent discount for drivers with good credit scores.) Michigan officials have gone further to stop what they consider an unfair rating practice that led to increased rates by proposing a ban on the use of credit scores in setting automobile and home insurance premiums. A 2002 Michigan Office of Financial and Insurances Study found that Michigan insurers had “greatly increased their base rate to all customers to compensate, at least in part for the credit scoring discounts to policyholders.”²³ “Insurance companies should be offering discounts based on the action a consumer can take to reduce his or her insurance risk — like installing a smoke detector or buying a car alarm — not on an unrelated unreliable credit score,” Michigan Gov. Jennifer M. Granholm said in a statement last year.

As part of the legislation, the Assembly instructed the Maryland Insurance Administration to study credit scoring to determine if the practice had an “adverse” impact on any racial or socio-economic group. The study, released by the MIA in February 2004, noted that 31 Maryland insurers, accounting for more than 35 percent of the state market, use credit scoring. Among them are companies with large segments of the Maryland market, including Allstate Insurance Company and Progressive Classic Insurance Company.

The study’s data showed that in selected Baltimore zip codes, as the percentage of minority residents increased, household income dropped as did the percentage of residents with good credit scores. In other words, high-minority areas tended to have

more people with lower credit scores and, we can therefore conclude, higher automobile insurance premiums.²⁴

But the MIA study stopped short of making firm conclusions about possible adverse impacts on any group of drivers.

Insurance industry representatives maintain that there is a correlation between claims history and credit scores, although they say they cannot explain why there is a correlation. Many insurers also maintain that the use of credit scoring is allowing them to offer coverage to urban drivers who otherwise might not meet underwriting standards. One industry survey concluded that a majority of customers have received lower premiums because of their good credit scores.²⁵ However, that report did not include figures detailing the amount of such discounts, nor the amount of premium increases charged to other drivers with sub-par credit scores.

Aside from Maryland's study, other analyses are emerging that confirm a correlation between income and credit scores. One major study by the Missouri Department of Insurance concluded that low-income and minority communities tended to have lower credit scores. "The study found that residents of high minority and low-income areas in Missouri tend to have significantly worse credit scores than residents of wealthier areas with fewer minorities," states a summary of the report.²⁶ "In general, the most economically vulnerable and disadvantaged areas in Missouri have the worst scores." The Michigan study concluded that the "majority of the companies using insurance credit scoring penalize those policyholders that have not used credit (obtained loans or payment plans), and therefore do not develop a credit history, by placing them at either the base rate without a credit scoring discount or in a higher rated tier even though their loss ratio statistics as a group may not warrant such a placement. Policyholders most likely to fall in this category are the young, those of college age, senior citizens, lower income individuals or those who pay all their bills in full and on time by cash, check or money order."

The Michigan report also raises concerns about the ways insurance credit scoring is used, the range of discounts offered, and the lack of information provided to consumers to allow them to determine if their credit score and resulting premium are accurate.

A major federal study of the issue is expected to be released in the next year or two. Meanwhile, some aggrieved customers are going to court to challenge the use of credit scoring in insurance. In California, Allstate Corp. agreed this year to pay \$3 million to settle charges filed by the state that the insurer had used poor credit histories to deny coverage to more than a thousand drivers. Advocates in California said the use of credit history to reject insurance applications amounted to "redlining," the

now illegal practice of drawing red lines around maps of poor neighborhoods and refusing to write policies to those who live inside the line.

In Texas, Allstate is facing a federal lawsuit filed by black and Hispanic customers alleging that the insurer unfairly used their credit histories to charge them higher rates. In defending their practice, Allstate and other companies note that they are already prohibited from considering an applicant's race when setting policy rates. But the suit charges that even if the company did not intend to treat minority customers in a disparate fashion, the actual effect on individual customers is indeed discriminatory, when credit histories are used to factor rates.

While the Maryland General Assembly has taken up the issue once, it seems clear that the full ramifications of how credit scoring affects the insurance costs of low-income and minority drivers are still being documented. The state should continue to examine this issue.

5. Maryland Automobile Insurance Fund

Maryland is unique among the states in having a separate, state-chartered entity to provide insurance to drivers who cannot obtain it on the open market. Other states have joint underwriting associations or assigned risk plans to provide insurance for such drivers.

The General Assembly created the Maryland Automobile Insurance Fund (MAIF) in 1972 to supplement the for-profit insurance market and ensure that all drivers would have access to insurance, following the passage of the state's first compulsory insurance law. Under the law, MAIF may issue policies to Maryland residents who have either been refused coverage by at least two private insurers or who have had their insurance cancelled.

Contrary to prevailing belief, those who end up insured by MAIF do not necessarily have bad driving records. Eighty-one percent of MAIF customers have two MAIF Vehicle points or fewer on their driving records. Rather, MAIF officials report that a large portion of their customer base are low-income drivers, particularly those who have had trouble paying for insurance premiums previously, and new drivers without a record of being insured, including a large number of recent immigrants.

MAIF is not intended to serve as a driver's long-term insurer. MAIF policy states that any policyholder who has not had a traffic accident and has held a policy with MAIF for at least three years cannot remain insured by MAIF unless the policyholder first attempts to secure insurance from a private firm.

Nearly all of MAIF's policies carry the minimum amount of coverage allowed under Maryland law. And unlike private insurers, MAIF must have its rates approved by the state insurance commissioner before they go into effect. As of October 2004, the average statewide MAIF premium for basic liability coverage alone was \$1,366, substantially higher than the average rates in the for-profit market.²⁷ Of course, actual MAIF premiums are often far higher for certain drivers.²⁸

Maryland has one of the highest proportions of drivers enrolled in the "shared" market – that is, drivers who are not able to be insured in the open market. (In Maryland, drivers in this "shared" market are insured by MAIF.) Overall, 3.5 percent of Maryland drivers were enrolled in MAIF in 2002, according to industry figures.²⁹ Only four other states had a higher percentage of drivers in "shared" plans; in 43 states, less than 1 percent of drivers were in the "shared" market.

MAIF serves as the insurer of last resort. But it also is a major insurer, at least in Baltimore City. Over the last two years, an average of 17,000 drivers in Baltimore City, a figure that represents between 6 percent and 8 percent of the number of all vehicles registered in the city, has ended up being insured by MAIF and paying its higher rates. This would give MAIF one of the largest segments of the Baltimore City insurance market.³⁰ By comparison, MAIF had an average of 11,800 customers in Baltimore County, less than 2 percent of the total number of vehicles registered.

Making MAIF More Affordable in Baltimore City

Interestingly, MAIF has taken an important step to make its products more affordable in Baltimore City, one that could hold implications for the state as a whole. State law passed in 1985 requires the insurance commissioner to consider the affordability of MAIF's rates before they go into effect – a reflection of MAIF's role as insurer of last resort.³¹ After that law went into effect, officials from MAIF and the insurance administration analyzed the MAIF rates assigned to Baltimore drivers and concluded that some reduction was needed to meet the affordability mandate. In what MAIF officials call an "informal" agreement with the Maryland insurance commissioner dating back about 15 years, MAIF has set its premiums for Baltimore City drivers 15 percent below the level that would otherwise be supported by actuarial experience.³² That discount has now become ingrained within the rate-setting mechanism at MAIF and is embedded in the premiums charged to all MAIF customers in Baltimore City, regardless of their income.

Officials with MAIF contend that MAIF customers who live outside Baltimore are not paying artificially higher premiums to make up for the discount for Baltimore drivers. Even so, it remains clear that since MAIF operates like a for-profit business, any discounting for Baltimore City drivers must inevitably force premiums in other areas to increase, at least slightly.

While this notion of partially subsidizing rates has helped keep MAIF premiums somewhat more affordable for customers in Baltimore City, the concept of evening out premium differences for all Maryland drivers has yet to be fully explored by state policymakers. And, it should be noted, state law includes no requirement that insurance rates for non-MAIF drivers be kept “affordable.” Indeed, based on the premium figures cited above, we should not consider MAIF to be the answer to the insurance problems confronting low-income drivers.

Installment payments

One aspect of state law governing MAIF deserves attention. Unlike private insurers, MAIF is prohibited by law from offering its customers the chance to pay premiums on an installment plan. Most for-profit insurers offer customers the chance to pay their premiums on installments and often charge a small processing fee of a few dollars on each payment. But Maryland law forces MAIF customers to pay their full annual premium in advance, or to borrow the premium amount from a premium financing company. Given the low economic standing of many MAIF customers, about 95 percent must use premium finance companies, adding significantly to the cost of a policy. State law caps the interest a premium finance company may charge to 1.15 percent per month – or roughly 13.8 percent per year. However, MAIF officials estimate that, in reality, interest and fees charged by finance companies in effect increase the cost of MAIF insurance by between 26 and 36 percent on an annual basis.

Efforts to address this situation by scaling back the legally protected role of premium finance companies have historically been thwarted in the State House by effective lobbying by the premium financing industry.³³ MAIF is on record in the General Assembly in support of giving its customers other options, such as paying premiums on installments directly to MAIF, which would likely generate significant savings for those drivers. MAIF officials are confident the agency could handle the additional administrative burden of implementing installment billing without excessive additional costs.

The high financing costs likely contribute to MAIF’s extremely high cancellation rate. Roughly half of all MAIF policyholders cancel their coverage in the first three months the policy is in effect. MAIF officials suspect that many of these customers are signing up for insurance only long enough to legally register a vehicle; once their registrations are in place, the insurance coverage is cancelled – more evidence that insurance costs are out of reach of many drivers.

However, many MAIF customers who cancel their policies end up re-enrolling with MAIF – often after being cited by state authorities for driving without insurance. The vast majority must again use a premium finance company to re-start their coverage; in doing so, they start paying a new round of interest and fees.

To summarize, Maryland's insurance system now shunts one of the nation's highest percentage of drivers into higher-cost MAIF coverage, particularly in Baltimore City. Most of these drivers have relatively clean driving records but are penalized by poor or non-existent payment histories. Once enrolled in MAIF, nearly all of these customers must pay crippling financing costs; half end up canceling their coverage, only to be penalized by the state and sent back to MAIF for another round of fees.

It is no surprise that Baltimore suffers from a high rate of uninsured drivers.

6. Lack of Information and Analysis

Complicating the issues cited in this report is a lack of relevant information, data and analysis.

For example, how much are drivers actually paying for insurance, when all factors are considered, as opposed to the amounts quoted in rate filings? How often are drivers being given discounts or charged more because of their credit rating? What is the average premium in Baltimore City and its various zip codes, compared to suburban drivers in next-door jurisdictions?

Such information is not available from the Maryland Insurance Administration. Compiling such data would require a special request from MIA to all state insurers and an analysis by the MIA. While the MIA has the authority to request such information, it has not done so in recent years.

If the MIA is not monitoring actual premiums, how can policymakers be sure that premiums are affordable for constituents in all parts of the state? The state of Maryland should regularly track average premiums in various zip codes and local jurisdictions.

The broader concern is the role of the MIA. The agency regulates all insurance matters in the state and fields insurance-related complaints from consumers. It also operates an insurance fraud division and issues some advisory information for consumers shopping for various lines of insurance, information that includes basic rates for certain categories of drivers in certain regions of the state.

But the MIA does not function as an aggressive advocate for automobile insurance consumers. To be sure, the Maryland code does not mandate such a role. But no other state agency is filling that role either, nor are any nonprofit groups. This stands in contrast to other states, including California, where the insurance administration often takes a more pro-active and pro-consumer role in monitoring rates.³⁴ Likewise, active consumer groups monitor insurance regulatory actions in California, Massachusetts and other states; no such group is actively doing that in Maryland.

One concern is the MIA's budget, which appears inadequate in some areas. The unit within the MIA that reviews rate filings for property and casualty insurers, which includes automobile insurance, is staffed with only six analysts, one actuary and a director. In prior years, that unit had as many 20 analysts. Today, the smaller staff has a huge workload, having to review roughly 2,500 rate filings a year. Given the staffing limitations, the MIA is able to perform only the most basic review to ensure that insurers' rates and policies meet state standards. Taking a more analytical look at trends and possible inequities would be all but impossible, given the staffing and budget constraints.

Likewise, the MIA makes no effort to analyze the number of insurance agents in Baltimore City and surrounding jurisdictions, an analysis that could well reveal a lack of commitment by insurers to the Baltimore market. Nor has the agency investigated how many drivers are un-insured, either statewide or in any local jurisdictions. Again, the Maryland law does not mandate that the MIA make such inquiries. But such data is essential to policymakers as they seek to ensure that mandatory automobile insurance is within financial reach of consumers.³⁵

7. Reform efforts in Maryland and elsewhere

Making automobile insurance affordable and available has emerged as an issue in Maryland several times in the last three decades.

The first major response came in 1972, when the General Assembly created MAIF. Beginning in the 1980s, some lawmakers and others raised questions about the fairness of using territories to determine rates. The state insurance commissioner studied the issue 1989 and concluded their use was acceptable.

Rates in Baltimore City remained a concern for some policymakers into the 1990s, leading to a grass-roots push to create a non-profit insurer to provide insurance to Baltimore City residents. A feasibility study concluded the idea could work, but would require several million dollars in start-up funding. The idea dimmed when no entity was willing to seed such a non-profit with the necessary capitalization funding.

As mentioned earlier in this report, the last major automobile insurance reform in the General Assembly came in 1995, when deregulation allowed automobile insurers to set their own rates. The following year, Gov. Parris N. Glendening sponsored reform legislation designed to bring down rates in Baltimore City. The legislation was the work of a gubernatorial commission and would have reduced tort costs, duplicative payouts and other factors that drive up insurance rates. In the face of strong opposition, and with little ardent political support behind it, the measure's key provisions failed. Major legislation, such as the 1996 insurance bill, often require more than one

year of discussion to win passage. In this case, though, supporters of reform essentially abandoned the idea after the 1996 defeat.

In 2001, the state's then-commissioner of insurance backed legislation to limit the effects of territorial rating. The bill had the support of lawmakers from Baltimore City but met steep resistance from other parts of the state, which would likely have seen their premiums increase if the legislation passed. The measure received little notice and died after perfunctory consideration.

In the last year, one Baltimore City legislator has proposed that the state encourage insurers here to offer policies that more accurately factor in a driver's habits, a move supported in 2004 by the Baltimore City Council. One insurance company, Progressive, is now running a pilot study of such policies in Minnesota. A car covered under one of these policies must have a special tracking device attached to tabulate how many miles the car is driven, at what times of day the miles are driven and how often the driver uses excessive speed. The company then calculates a premium discount for that driver, depending on his or her driving habits. As of December 2004, Progressive officials were exploring offering a similar pilot program in Baltimore.

Such policies pose logistical questions. For instance, the Progressive policies are available only for vehicles built after 1996, and drivers must have a computer with up-to-date software – requirements that many drivers may not be able to meet. And the policies are not likely to be a panacea for urban residents as the premiums also rely on other factors, including territorial rating.

Those concerns aside, such new approaches offer worthwhile alternatives to the current system. The MIA and legislature should continue to explore ways of encouraging companies to offer coverage that more accurately reflects driving habits.

Looking outside Maryland's borders for answers

Although Maryland has largely sidestepped the issues of unaffordable insurance and uninsured drivers, other states have taken steps to address the problem. Summarized here are efforts undertaken in several states, some more successful than others.

California

As with so many issues, California has been at the forefront of efforts to bring down insurance costs for all drivers, with a special focus on low-income residents.

In 1988, California voters approved Proposition 103 to protect consumer rights and increase competition. Among other things, the law mandated a 20 percent across-the-board reduction in auto insurance premiums and significant good-driver discounts. It also required insurers to base their premiums primarily on a driver's safety record, the number of miles he drives and his years behind the wheel. Other factors – includ-

ing a driver's age, gender or zip code – would be less important in setting rates, under the new law.

Advocates for the legal change have had to work aggressively to force California insurers and state regulators to adhere to the intent of the ballot question. A ruling by the California insurance commissioner – later upheld by the courts – gave insurance companies more latitude to use territorial factors in rate setting. That ruling is now under challenge from representatives of Los Angeles, San Francisco and other urban areas, where residents continue to pay significantly more for insurance. A new California insurance commissioner has called the current use of territorial rating “grossly unfair” and is considering unspecified changes in state rules.

Well-organized consumer groups continue to press the issue. In a recent victory, advocates won a court ruling requiring California insurers to disclose the extent of their business in zip codes throughout the state. The court concluded that California's strong pro-consumer law “subjects the business of insurance to laws prohibiting discriminatory and unfair business practices.” The zip code data gives the public a detailed look at how well insurance companies are serving urban areas.

Proposition 103 also gives consumer groups a role in the rate reviews conducted by state regulators. Recently, for example, one of those groups, the Foundation for Taxpayer and Consumer Rights, challenged a request by Farmers Insurance to raise its rates by 5.8 percent. The Foundation's analysis concluded that Farmers was seeking an excessive profit margin for its California business and was using excessive projections of claims losses.³⁶

In recent years, a new focus for California has been to help low-income drivers – particularly in urban areas – secure car insurance. An estimated 1.4 million drivers in Los Angeles County, a quarter of the total, are uninsured. The California legislature passed a measure in 1999 creating a low-cost, bare-bones policy for residents of Los Angeles and San Francisco. The policy was available to low-income drivers with good driving records, and included basic liability coverage that was less than what had been previously required under California law. Despite the low cost – \$450 in Los Angeles and \$410 in San Francisco – enrollment was disappointing. As of 2002, the program had enrolled only 3,500 drivers.

In response, the legislature mandated a cut in the cost of the policies – to \$347 in Los Angeles and \$314 in San Francisco, which can be thousands of dollars below the cost of a standard policy. It also increased the income limits to allow more drivers to become eligible. (The income eligibility levels are tied to the federal poverty income thresholds. For example, a family of four with an income of up to \$47,125 is now eligible for the low-cost insurance program.) By the summer of 2004, about 6,000 people had enrolled in the low-cost program.

Advocates blame the lackluster enrollment on a lack of public awareness. Contributing to the problem are the small commissions that agents collect for selling the policies. The state insurance commissioner supports the low-cost program and has launched a campaign to spread the word through churches and community groups.

Philadelphia

Philadelphia residents have had to pay auto insurance premiums that often are dramatically higher than those paid by their suburban neighbors. Beginning roughly 15 years ago, Philadelphia leaders began doing something about it.

A key change came in 1990, when the Pennsylvania legislature passed a bill that offered drivers in the state the option of choosing insurance policies that limited their ability to sue for some damages after their car is involved in an accident. The policies, known as limited-tort, allow policyholders to recover lost wages and unpaid medical bills but prohibit them from suing for pain and suffering claims for most accidents. (These policyholders can sue for such damages in the case of serious accidents and other limited circumstances.)

The limited-tort option has proven extremely popular with Philadelphia drivers, with roughly 70 percent choosing the coverage. Overall, more than half of Pennsylvania drivers choose the limited-tort policies.

In exchange for limiting their right to sue for hard-to-quantify damages, drivers have paid less for their policies – in the range of 8 percent to 15 percent less. Recently, state insurance officials, under pressure from Philadelphia leaders, ordered Pennsylvania insurance companies to increase the discount due to car-owners opting for limited-tort coverage. The insurance commissioner found that rates had not accurately reflected the reduced claims cost associated with the limited-tort policies. The determination by the insurance commissioner’s office will mean an additional savings – sometimes substantial – for many Philadelphia residents.

Over several years, city officials pushed to improve the conditions that drive up insurance costs in the city. In particular, the number of cars stolen in Philadelphia has fallen by roughly half since 1996 – thanks in part to a statewide campaign to combat auto theft, a campaign funded by the insurance industry.

As mentioned previously, the state of Pennsylvania has also adopted a schedule that sets fees that can be charged by medical providers treating people injured in automobile accidents. The schedule is tied to Medicare fees and is credited with helping control the costs of some motor vehicle accidents.

The bottom line from all of the changes cited above is that insurance costs in the city of Philadelphia – which have historically far exceeded those for other areas – have

moderated. In 1993, the average premium for a Philadelphia resident was \$1,339; in 2000, it had dropped to \$1,327. While premiums for Philadelphia drivers remain higher than those paid by suburban and rural drivers, the decrease in rates over an eight-year span represents at least modest progress.

New Jersey

The Garden State has long been one of the most expensive insurance markets in the nation, and several large insurers refused to do business in the state. However, in recent years, lawmakers have begun to take steps to bring down the cost of insurance and increase competition.

In some cases, the state de-regulated aspects of the insurance market, repealing, for instance, the law that required insurers to “take all comers” by writing policies for any driver who applied. The state also phased out a provision that essentially capped rates in urban rating territories.

In addition, the New Jersey legislature passed a measure that includes relief for many low-income drivers who struggle to pay for insurance. In one case, the state authorized a “dollar-a-day” policy that costs only \$365 a year. The policy pays for emergency medical treatment and treatment of serious brain and spinal cord injuries, with benefits capped at \$250,000. The policy is available only to residents already enrolled in Medicaid, the joint federal-state health insurance program for the poor and elderly. However, the policy does not include liability coverage to protect the driver for any damages he or she causes in an accident. While some in the industry have criticized the “dollar-a-day” policy as offering little protection for policyholders, advocates suggest that such policies serve to help low-income New Jersey residents remain legal drivers, able, for example, to drive themselves to work. The goal, the advocates say, is to help such drivers become more financially secure, which will allow them to afford a more traditional and protective insurance policy. As of September 2004, more than 7,600 New Jersey drivers had taken out the bare-bones policies. The New Jersey Department of Banking and Insurance reports that there is early evidence that some of these driver, after enrolling in the dollar-a-day program, have subsequently moved into more traditional policies.

A second new wrinkle is a Basic Policy that the law requires be available to all drivers. Such policies were made possible by a 1998 state law that provided for exceptions to the mandatory minimum coverage that New Jersey drivers were required to carry. For example, the Basic Policy does not include bodily injury liability coverage; previously, drivers were required to have at least \$15,000 in such coverage for injuries they caused. The Basic Policy provides \$15,000 for basic medical expenses under the personal injury protection coverage – well below the \$250,000 included in regular policies.

Not surprisingly, the Basic Policy typically costs far less than standard policies. In the Trenton rating territory, for example, some insurance companies offer the policy for less than \$200 (and many others offer it for less than \$500), for a 30-year-old male driver with one car and a clean driving record. A traditional policy with broader coverage would, of course, cost the same Trenton driver far more.

Unlike with the Dollar-a-Day policies, premium rates for the Basic Policy vary significantly depending on other factors, such as age, driving record and the amount of miles driven in a year. As of 2004, more than 30,000 of the Basic Policies had been sold in New Jersey. The guiding concept behind the policies is that drivers should have insurance that protects the assets they have. Many drivers choosing the Basic Policy have modest incomes and few assets, such as houses, that are at risk, according to state insurance officials. From society's perspective, the Basic Policy is helping reduce the number of uninsured drivers on New Jersey roads.

Massachusetts

According to the insurance industry, Massachusetts is far from an insurance heaven. Drivers there pay some of the highest premiums in the nation and only 19 insurers write policies in the state, far fewer than are typically found in other states. At the same time, Massachusetts bears consideration for several reasons.

First, the state's regulatory system is premised on a goal of maintaining affordable rates for urban and young drivers. This requires suburban and rural drivers to pay slightly more for coverage than the amount that is actuarially justified, to subsidize premiums for city-dwellers and new drivers. This subsidy can be significant. Drivers with full insurance coverage and who live in the urban Roxbury area, for example, receive an average subsidy of \$1,368 this year. Drivers from Roxbury who are also young are receiving subsidies averaging \$3,780. Such subsidies are made up by non-urban drivers, who pay an additional premium amount ranging from \$10 to \$89, according to the Automobile Insurers Bureau of Massachusetts, which establishes rates in the state. It is important to point out that even with this special focus, urban and younger drivers still must pay more than the statewide average.

Automobile insurance has become a major topic in Massachusetts, with both the governor and the state attorney general looking at possible reforms. These reformers will likely heed the disastrous effort in 1977 in which the state moved to de-regulate its insurance system but caused rates in urban areas to skyrocket. The state's rates may never drop significantly, given that Massachusetts has the highest accident rate in the nation and a high rate of bodily injury claims. Yet, it is crucial to note that Massachusetts has one of the lowest rates of uninsured drivers in the nation – an estimated 7 percent of the total.

Along with its efforts to reduce the number of uninsured drivers and to keep insurance affordable for urban residents, Massachusetts is considered a leader in encouraging various groups of drivers to come together and obtain insurance discounts for members of their groups. More than 1,800 group insurance discounts are now on file with the state, according to the Massachusetts Division of Insurance. By negotiating with insurers, these groups' members receive discounts of between 1 percent and 15 percent.

In all, 824,367 Massachusetts drivers now receive such discounts. For example, more than 420,000 members of the American Automobile Association of Southern New England, the largest such group, receive a 5 percent discount on their policies. But groups include employees of a wide array of companies, credit union members, union workers and members of community groups, including churches. For example, more than 14,000 members of the state teachers union receive a 12 percent discount.

A 1997 study by the Center for Insurance Research in Cambridge, Mass., found that insurance companies offering the group discounts were generally rewarded with lower expenses and claims losses that were significantly below the industry average in the state. However, the Center's study raised the question of whether the above-average loss experience was due to insurance companies marketing the plans only selectively to groups that include lower-risk drivers. The study concluded that more analysis would be needed as the group market expanded to include larger membership groups with a demographically diverse group of potential members. As of now, no additional studies have been done that shed light on how insurance companies may be using the group discounts to "skim" off the most favorable, low-risk drivers.

But even without that information, it appears likely that there are significant possible benefits to drivers in Baltimore City (and elsewhere in Maryland) who are members of large groups – such as churches, neighborhood associations, teachers unions, or fraternal groups.

Territorial Rating Elsewhere

Along with Massachusetts, several states have attempted to lessen the impacts of territorial rating.

In 1981, Michigan implemented a new state law regarding automobile insurance rating territories, a law designed to make mandatory auto insurance more affordable for residents of Detroit and other economically depressed urban areas. The law limited the number of territories an insurer could have, mandated that an insurer's lowest territorial rate could not be less than 45 percent of its highest rate, and required that no territory's rate could be less than 90 percent of the rate in an adjoining territory.

The law, in effect, required suburban and rural drivers to subsidize the typically higher costs associated with urban drivers; it was repealed entirely in 1996.

A 1999 analysis of Michigan's experience done for the National Association of Insurance Commissioners noted that the 1981 law had indeed led to a subsidy of urban insurance costs. But, the analysis noted that rates for those drivers remained high and that the law did little to encourage or require insurers to write more business in Detroit.

In Connecticut, an administrative ruling limits the effects of territorial rating in an attempt to keep costs more affordable for residents of urban areas. Under the rule, insurers consider only 75 percent of a territory's actual claims-loss history in setting rates; the rest of the rate is based on the statewide claims-loss data. The practice creates a small subsidy for drivers in high-claims areas.

And last year, Texas passed a measure that prohibits insurance companies from setting rates that are more than 15 percent higher than rates in an adjoining territory within the same Texas county.³⁷

No-fault Insurance

In the 1970s, many states adopted no-fault insurance systems. Under no-fault coverage, a driver injured in an accident has his medical bills and lost wages covered by his own insurer. In return, drivers give up some, but not all, access to the courts to recover damages from at-fault drivers. Today, many states have abandoned portions or all of their no-fault systems. In Maryland, for example, the state made no-fault personal injury protection coverage optional in 1989. Many consumer advocates oppose no-fault insurance because it limits a driver's right to sue for damages and there is little evidence that no-fault insurance leads to lower premiums.

8. Recommendations

Much has happened in other states since Maryland last took a serious look at reducing automobile insurance rates for urban drivers. It is time for the state to revisit a situation that causes financial hardship for many Baltimore City drivers or forces them to break the law and drive without insurance.

Reforming Maryland's system to make mandatory insurance more affordable in Baltimore City will inevitably face resistance in some quarters. However, the results in other states suggest that change is possible here as well.

These recommendations are based on three broad goals:

1. To lower the cost of insurance and ease the substantial differences in costs in Baltimore City and other parts of Maryland.

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2. To reduce the number of uninsured drivers on Maryland roads.
 3. To end practices enshrined in Maryland law that drive up insurance costs disproportionately on low-income drivers.

With those goals in mind, this report makes the following recommendations for Maryland and Baltimore policymakers.

Understand the Problem

Maryland requires drivers to carry automobile insurance. But state policymakers must recognize that the current state system leads to dramatically higher insurance costs for residents of Baltimore City. Far too many Baltimore City residents who depend on their cars simply cannot afford coverage and end up driving without insurance.

One telling statistic: roughly half of the drivers who enroll with the Maryland Automobile Insurance Fund cancel their policies within three months, a clear indication of a serious problem.

The high rates in Baltimore City have given the city a high rate of uninsured drivers and the highest rate of uninsured motorist claims in the nation. Accidents caused by uninsured drivers send insured drivers' premiums higher, at least indirectly. Second, thousands of drivers in Baltimore are routinely ignoring the law and risking major financial penalties by failing to obtain insurance.

- State policymakers must recognize that the high premiums in Baltimore City create an unfair financial burden for low- and moderate-income drivers, and that far too many Baltimore City drivers are going without insurance.
- The State should adopt as public policy that coverage should be affordable to as many drivers as possible.
- The MIA should work with the Motor Vehicle Administration and the state's insurers to measure the number of uninsured drivers in the state and in each local jurisdiction.

Let the Public in on the Insurance Business

The public suffers from both a dearth of information about the insurance situation in Baltimore City and from a lack of influence over a rate-setting and enforcement process that directly affects them financially. Specifically:

- Current law prohibits the public from obtaining information about which companies are most active in Baltimore City. This information should be available to the public.

- The 1995 law requiring insurers to provide marketing plans for Baltimore City drivers has proven to be irrelevant. Only two companies were required to file them in 2004 and MIA was at least two months late in collecting them for review. The state should re-visit this issue and require companies to provide meaningful information about their marketing in Baltimore City, to ensure strong competition and widespread access to a variety of insurers.
- Although the Maryland Insurance Administration issues a guide that summarizes base rates for many of the state’s largest insurers, the agency does not analyze the actual premiums being paid by Baltimore City drivers, taking into account, for example, the use of credit scoring. Nor has the MIA followed up on its 2001 analysis of premium data, which showed some suggestion of racial disparity. This lack of thorough information about actual premiums paid by Baltimore City drivers hampers reform discussions. Lawmakers should charge the MIA with preparing regular analyses of actual premiums throughout the state to ensure that they are not “excessive” or “unfairly discriminatory,” as mandated by state law. As part of such analyses, the MIA should carefully examine premium data to see if minority drivers are being treated unfairly, deliberately or not.

Build political will

Experience in other states has made clear that change will not happen without a concerted push. In Philadelphia, for example, city leaders lobbied strenuously before winning major reforms that have helped bring down rates. Philadelphia has gone on to create the position of public insurance advocate to monitor rates and the actions of state insurance regulators.

Baltimore City suffers from a lack of well-funded consumer groups as are found in such states as Massachusetts and California that can push legal and regulatory changes necessary to ensure fair treatment of city drivers. Nor has the city taken the lead on this issue.

- Baltimore should consider creating an office to advocate for city drivers, both with the Maryland Insurance Administration and with state policymakers. Such an advocate, backed by actuarial staff, could examine insurance rate filings for accuracy and fairness, and lobby for change.
- The issue of affordable automobile insurance is not relevant only in Baltimore. Prince George’s County has high rates and an even higher rate of uninsured drivers than Baltimore City, according to the insurance industry. Baltimore City leaders should work with leaders from Prince George’s County and other areas to build support for making mandatory insurance affordable to as many drivers as possible.

Authorize new insurance products

California, Pennsylvania and New Jersey have taken the lead in providing basic insurance with an annual cost of only a few hundred dollars, including for urban drivers.

- Maryland should create a low-cost insurance option. The goals are two-fold: to bring down the cost of insurance and to get more drivers to carry at least basic coverage and, therefore, remain legally on the road. A key focus of such a proposal should be low-income drivers and Baltimore City would be the logical place to consider a pilot program. It is crucial that state officials heed the experience of California and make sure that any such low-cost insurance program is widely publicized and marketed.
- Maryland should continue to explore other insurance options, including policies that place a greater emphasis on a driver’s actual driving habits, such as that offered on a pilot basis by Progressive Insurance. These policies could prove appealing to many low-income and other urban drivers.

Expand the use of group-policy discounts

Group discounts in Massachusetts have decreased the cost of insurance by as much as 15 percent for drivers affiliated with hundreds of organizations. While a handful of such policies are in place in Maryland, the state could be doing far more with this option, which could provide important relief to drivers in Baltimore City and elsewhere.

- The State should work with insurers and a wide range of groups – including churches, employers, community associations and fraternal groups – to encourage the use of group discounts. This would be especially appealing to drivers with good driving records who happen to live in high-premium territories.

Consider limits to territorial rating

Bound by law to offer affordable rates, the Maryland Automobile Insurance Fund has historically given Baltimore City drivers a 15 percent discount on premiums, with the extra costs effectively passed on to other MAIF customers. The concept of partially easing the cost of insurance for Baltimore City drivers has apparently worked acceptably for MAIF customers.

Similarly, the State in 1993 embraced the concept of “modified community rating” for health insurance for small businesses. This law, which was designed to help all small businesses afford health insurance for their employees, prohibits insurers from considering the health status of employees when setting premiums. This, in effect, creates a subsidy for some employers; some companies that had been paying more for insurance – because of their “higher-risk” employees – saw a reduction in rates.

Despite those two precedents, Maryland policymakers have scarcely considered such an approach in the general automobile insurance arena – that is, establishing a rating system that reduces the enormous differences in premiums charged in different areas of the state. The concern, of course, is that any effort to reduce rates in Baltimore City will drive up rates elsewhere. This is an understandable political response. But it is also a short-sighted view that penalizes low-income Baltimore City residents most acutely.

This report’s review of the territorial rating system in Maryland suggests that territories often have arbitrary boundaries and could be redrawn in countless ways that are no less reasonable but that would ease premiums for many urban drivers. For example, drawing larger rating territories would tend to reduce differences in premiums from one jurisdiction to the next.

State insurance regulators should be more diligent in examining the ramifications of territorial rating. In particular, officials should examine the size, population and demographics of rate-setting territories and consider the role these territories play in making insurance unaffordable for many drivers.

Maryland should examine California’s effort to force insurance companies to put more weight on such factors as a driver’s safety record, driving experience and the number of miles driven instead of on where that driver lives. This common-sense approach to setting premiums is inherently fairer to individual drivers.

Re-visit the use of credit scoring in premium setting

State law allows automobile insurers to use credit scores to set higher premiums for new customers in Maryland, despite widespread concerns that their use increases rates disproportionately for low-income and minority drivers. A national study of the issue is underway and at least one lawsuit by minority drivers is active in the federal courts.

Michigan is taking steps to be the first state to ban the use of credit scores in setting insurance premiums. Maryland should re-examine the use of credit scoring to gauge its fairness to all groups of drivers, and should take advantage of ongoing research around the country to set future policy.

Cap financing costs

Current state law governing the Maryland Automobile Insurance Fund forces more than 100,000 drivers, many of them low-income, to borrow their premiums from finance companies that charge fees and interest that can increase the cost of insurance by as much as one-third.

State law should allow the Maryland Automobile Insurance Fund to collect premiums on an installment basis, just as private sector companies do. The legislature should review the fees and interest being charged by premium finance companies to determine if they are excessive.

Increase funding to fight automobile theft and fraud

The state of Maryland and some local jurisdictions have been remarkably successful in reducing the number of auto thefts in the last decade. Reducing such crime helps reduce insurance premiums. Unfortunately, the state has cut its contribution to this effort in the last few years. Similarly, the state has reduced funding to combat insurance fraud.

The State should increase spending to combat automobile theft.

The MIA should examine insurance premiums related to auto theft to determine if rates charged in Maryland, and in Baltimore City and other local jurisdictions, accurately reflect the progress made by police.

The State should increase the budget of the MIA's insurance fraud division to allow the division to hire more investigators and other personnel and to purchase up-to-date computer systems to provide for better tracking and analysis of fraud incidents.

Consider changes in Maryland's tort system

Some aspects of the state's tort system deserve attention from policymakers. For example, the state's "collateral source" rule can require automobile insurance companies to pay medical bills that were already paid by a third-party health insurer, creating a windfall for the plaintiff and the plaintiff's lawyer. Many states have passed legislation to stop the practice. Also, some states have attempted to hold down medical costs by adopting fee schedules for post-accident medical treatments.

Both ideas could lead to savings in automobile insurance costs. However, this report does not attempt to analyze the broader implications of such steps and makes no specific recommendations.

Endnotes

- ¹ Figures taken from Maryland Insurance Administration's comparison guide to automobile insurance rates for companies doing business in the state, August 2004 edition.
- ² Author's calculations of based on rate comparison information provided by 10 most active insurance companies as of July 2003 and compiled by the Maryland Insurance Administration. Rates are for residents of zip code 21218 in Baltimore City, 21230 in Baltimore County and 21157 in Carroll County.
- ³ "The Maryland Automobile Insurance Fund and the Private Insurance Market," a report by the Maryland Insurance Administration, January 2004.
- ⁴ In one study of residents of the Phoenix, Arizona, area, a researcher found that low-income families were paying at least 7 percent of their income on automobile insurance premiums, and sometimes significantly more. The study made plain that paying for this mandatory insurance often forces these families to put off other purchases – for rent, health services and other important needs. See "The Impact of Mandatory Auto Insurance Upon Low-Income Americans," by Robert Lee Maril. Presented as testimony before the U.S. Senate Commerce Committee, Sept. 9, 1998.
- ⁵ Determining the rate of uninsured drivers in Baltimore is an inexact science. The Insurance Research Council develops its estimate by comparing the number of uninsured motorist claims to the number of personal injury claims. In Baltimore between 1995 and 1997, for every 100 bodily injury claims filed, there were more than 23 uninsured motorist claims. The IRC views that figure as a reliable indicator of how many vehicles on the road are uninsured. The claims figures reflect accidents that took place within a certain jurisdiction; they do not reflect the jurisdiction in which the cars involved in the accident are garaged.

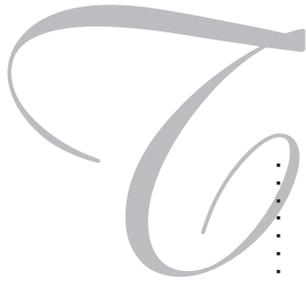
A smaller study by the Property Casualty Insurers Association of America in the late 1990s determined that the uninsured motorist rate in Baltimore was 17.1 percent, and 10.8 percent statewide.
- ⁶ "Factors Affecting Urban Auto Insurance Costs," Insurance Services Office Inc. and the National Association of Independent Insurers. Data collected in late 1980s. The study found that Baltimore drivers over a five-year period filed 12.2 uninsured motorists claims per 1,000 vehicles insured. Rates for selected other cities: Cleveland, 4.4; Detroit, 10.0; Los Angeles, 11.5; Newark, 10.3; Philadelphia, 11.8.
- ⁷ By contrast, the Maryland Motor Vehicle Administration estimates that between 5 and 10 percent of vehicles in the state are uninsured. The agency makes that estimate by analyzing the numbers of vehicles for which insurance is cancelled each year. This is a difficult calculation given the number of policies that are cancelled and started each year, and the insurance industry asserts that such estimates tend to undercount the actual number of uninsured vehicles.

These uninsured drivers are not necessarily Baltimore residents. The underlying data supporting this figure, as collected by the Insurance Research Council, tracks accidents that occurred in Baltimore, but did not specify the residence of the drivers involved in the accidents.
- ⁸ Those inside-the-Beltway communities tend to be less affluent than those more removed from Washington, D.C., and abut several financially struggling communities within the District of Columbia.
- ⁹ The Maryland Motor Vehicle Administration reports that the agency assessed more than \$117 million in fines against car owners for failure to maintain insurance coverage in 2002 and \$76 million in 2003.
- ¹⁰ The grand jury recommended significant changes in Maryland tort law in 1997, including a cap on pain and suffering damages for minor injuries, and an end to a practice that allows accident victims to collect twice for some medical costs. The recommendations were largely ignored.
- ¹¹ The General Assembly changed the law in 1989 to allow drivers to waive this PIP coverage, a step that produced significant savings for many policyholders. Drivers with health insurance are generally already covered for any injuries they suffer in a car accident, making PIP coverage duplicative.
- ¹² Among automobile insurers, only the Maryland Automobile Insurance Fund is required to have its rates approved in advance by the state insurance commissioner.
- ¹³ The National Association of Insurance Commissioners cautions that state rankings of insurance premiums can be misleading, as states require different levels of coverage.
- ¹⁴ "Trends in Auto Injury Claims," 2002 edition. Insurance Research Council, Malvern, Pennsylvania.
- ¹⁵ In some cases, a person injured in an accident can actually have medical bills paid by three different insurers – through his health insurer, his own PIP coverage and the at-fault driver's liability coverage.
- ¹⁶ Interview with Ron Sallow, director of the insurance fraud division.

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- ¹⁷ Premium estimates are based on territorial rating factors included in State Farm rate filing of June 2003.
- ¹⁸ According to a State Farm representative, all residences that have a York Road address within zip code 21212 are included in Territory 13. Within that zip code, residences east of York Road that do not have York Road addresses are included in Territory 16.
- ¹⁹ Presentation by the Maryland Insurance Administration on Territorial Rating, March 2001. Presented by former insurance Commissioner Steve Larsen to the General Assembly as testimony on HB 1319 and HB 1292.
- ²⁰ The data does not allow for a more precise analysis of household income. It seems reasonable to conclude that households with the lowest incomes are less likely to own a car. That would mean that the average income for households that do own a car would be slightly higher, which would, in turn, make automobile insurance slightly more affordable.
- ²¹ Insurance Services Organization Advisory Prospective Loss Cost filing with the Maryland Insurance Administration, March 2004. The filing tallies total “car years” insured for the period ending September 30, 2002.
- ²² MIA response to public information request filed by the author. Response from Robert D. Friedman, MIA senior insurance analyst, dated Dec. 2, 2004.
- ²³ “The Use of Insurance Credit Scoring in Automobile and Homeowners Insurance,” Michigan Office of Financial and Insurance Services, December 2002
- ²⁴ The MIA study echoed a major 1999 study by Freddie Mac, the federally chartered mortgage company, that found that blacks are far more likely to have bad credit ratings than whites, even when their incomes are similar.
- ²⁵ National Association of Independent Insurers 2002 Survey on the Use of Credit Information in Personal Lines Insurance.
- ²⁶ Missouri Department of Insurance, “Credit History and Insurance FAQ”
- ²⁷ Such a comparison of costs is misleading as it reflects the average cost of only basic liability coverage. For the average driver in Maryland, liability coverage accounts for roughly one-half of the total premium, with the rest going to comprehensive, collision and other coverages. An estimated 99 percent of MAIF customers opt for the minimum insurance coverage required under Maryland law, which is reflected in the average premium figure cited here. However, the average premium for policies issued by all insurers reflects all policies, including many that carry far higher coverage amounts. In other words, MAIF customers pay significantly more for significantly less coverage than the average Maryland driver in the private market.
- ²⁸ In some cases, stated premiums for both private companies and MAIF are staggeringly high. For example, a 23-year-old man who lives in Baltimore and has had one accident for which he was at fault can expect to pay nearly \$8,000 for bare-bones coverage from MAIF. Such a rate would, of course, be prohibitive for most drivers.
- ²⁹ Automobile Insurance Plans Service Office
- ³⁰ It is difficult to come up with firm estimates of MAIF’s share of the Baltimore market. While the Maryland Motor Vehicle Administration counted 286,000 vehicles registered in Baltimore in 2003, neither the MVA nor the state insurance administration can say with certainty how many vehicles were actually insured in Baltimore, or breaking it down further, how many passenger cars were insured. To make a very rough estimate: If we assume that a quarter of the vehicles in Baltimore are not insured, then there are approximately 71,500 uninsured vehicles, leaving about 215,000 insured vehicles. In that case, MAIF’s market share would be approximately 8 percent. For reference, we note that State Farm, the largest writer in the state, has almost 20 percent of the statewide auto insurance market, while Allstate, the second largest, has 11 percent. The next largest insurers in the state hold about 6 or 7 percent of the market. It is reasonable to assume that MAIF is one of the largest insurers in Baltimore City.
- ³¹ The preamble to House Bill 341 in 1985 calls for MAIF rates to “remain affordable to that segment of the population which is dependent on the Fund for automobile insurance.”
- ³² The 15 percent discount for Baltimore drivers applies to bodily injury, property damage and uninsured motorist coverage, not to personal injury protection, comprehensive and collision coverage, according to MAIF.

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- ³³ The premium financing industry in Maryland maintains that it helps make obtaining insurance more affordable for many drivers. This is possible because these companies require only a 10 percent down payment.
 - ³⁴ It is worth noting that California has an elected insurance commissioner; Maryland's commissioner serves at the pleasure of the governor.
 - ³⁵ The MIA, acting alone, would be hard-pressed to calculate the number of uninsured drivers in the state. However, the agency could take the lead and work with other state agencies, including the Motor Vehicle Administration, and private insurers to develop the data needed to make such a calculation.
 - ³⁶ According to the Maryland Insurance Administration, a consumer or advocacy group in Maryland, working on behalf of an aggrieved consumer, could join in to protest a rate hike. However, there is no evidence that any such group is currently monitoring rate filings in the state.

About the Report and Author



Tom Waldron is a Baltimore-based researcher and writer. A former reporter for the Baltimore Sun, Waldron covered a range of state and national issues as the newspaper's State House bureau chief. More recently, he has researched and written on a variety of topics for non-profit groups, including the Earned Income Tax Credit, the nation's working poor, health insurance, homeland security and Baltimore demographics. To prepare this report, he reviewed news coverage, industry analyses, non-profit groups' work, legislative records, congressional testimony and several other sources.

The report also relies on interviews with more than three dozen people, including the following:

- Anne Ferro, former administrator of Maryland Motor Vehicle Administration
- Tom Walsh, Maryland Motor Vehicle Administration
- Alfred W. Redmer Jr., commissioner, Maryland Insurance Administration
- Frederick M. Santiago, Maryland Insurance Administration
- Pamela Randi Johnson, Maryland Insurance Administration
- Steve Larsen, former commissioner, Maryland Insurance Administration
- Ronald A. Sallow, associate commissioner, Maryland Insurance Fraud Division
- Emmet Davitt, assistant attorney general, Insurance Fraud Division
- Les Ransom Sr., author of two studies of Maryland insurance in the 1990s.
- Earnest Hines, president, American Skyline Insurance
- Stevon Sutton, vice president, American Skyline Insurance
- Kevin Smith, claims manager, American Skyline Insurance
- Jason Adkins, former head of Massachusetts Center for Insurance Research
- Brendan Bridgeline, Center for Insurance Research
- Steve D'Amato, Center for Insurance Research
- Robert Hunter, Consumer Federation of America, insurance policy director
- Celeste Dodson, director of anti-fraud office, State Farm Insurance
- Doug Heller, California Foundation for Taxpayer and Consumer Rights
- Richard J. Manning, administrator, California Low-Cost Insurance Program
- Tracy Gosson, executive director, Live Baltimore

