MARYLAND

INSURANCE ADMINISTRATION

MSAR #10685

Use-Based Automobile Insurance in Maryland

2018 Annual Report

Al Redmer, Jr.

Commissioner

Pay-As-You-Drive® Insurance in Maryland

Program Description

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

As of 2018, at least seventeen insurance companies offer a use-based insurance program for their private passenger insureds and at least fourteen offer these programs to their commercial insureds. This is a voluntary program. In addition, four vendors offer a product that insurers may purchase (rather than developing their own program) to make available to their customers. An insurer that uses a vendor-created program must file the program with the Maryland Insurance Administration (MIA) prior to implementation. As a result, the MIA anticipates a continued increase in the availability of use-based automobile insurance. Consumers receive discounts off of their insurance premiums for participating in most use-based programs. However, nationally, the market is moving towards the use of discounts for safe drivers and surcharges for less safe drivers as measured by telematics devices.

Program Objectives

The MIA continues to work with insurers to increase the number of companies offering these programs.

Estimated Emission Reductions for CY 2017

Due to the nature of this program, it is impossible for the MIA to measure the reduction. Even though it is unclear to what extent the use-based automobile insurance will reduce greenhouse gas (GHG) production, it is beneficial to encourage the expansion of these programs in the state in that they offer more options to consumers.

Obstacles/Considerations

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

1. Use-based automobile insurance only produces financial rewards for individuals who drive short distances. Individuals lacking access to public transportation or alternatives to driving, such as those who live in rural areas or those who commute to work, will not

be inclined to sign up for this type of program as it will not result in any cost savings to them.

2. Consumers may be concerned about the privacy issues surrounding programs such as this that utilize devices that monitor how, when and where they drive in order to justify the discounts provided.

3. Individuals who sign up for use-based automobile insurance are most likely persons who drive a limited number of miles, and as such, the actual reduction in GHG may not add up to the volume projected.

4. The increased costs and expenses for insurers to develop alternative rating plans and the devices used to track and transmit this data may limit its availability and affordability.

5. The (in)ability to collect additional premiums from insureds who exceed the mileage limits, or to legally disclaim coverage if the insured vehicle is involved in an accident after it is discovered that the amount of mileage insurance purchased has been exceeded.

6. The (in)ability to properly rate policies when more than one vehicle or driver are on the policy. Since different drivers present different risk factors, it is important for the insurer to know how many miles each insured person is driving each insured vehicle and this may be almost impossible to determine.

7. Depending on the type of telematics device and whether it sends information to an insurer via wireless phone networks, the ability to remotely execute malicious code could interfere with the data and data transmission.