Review of Pay-As-You-Drive® Programs in Maryland

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Introduction

In 2007, by Executive Order, Governor Martin O'Malley established the Maryland Commission on Climate Change (the Commission). The Executive Order tasked the Commission with developing a plan that addressed "the drivers and causes of climate change, to prepare for the likely consequences and impacts of climate change to Maryland, and to establish firm benchmarks and timetables for implementing the Plan of Action." One component of the Climate Action Plan (the Plan) was the development of a Comprehensive Greenhouse Gas (GHG) and Carbon Footprint Reduction Strategy "which evaluates and recommends Maryland's GHG reduction goals; recommends short, medium and long-term goals and strategies to mitigate GHGs and offset carbon emissions; and provides an implementation timetable for each recommended strategy" (Climate Action Plan – Chapter 4, p. 24). This strategy grouped policies into five categories: Agriculture, Forestry and Waste (AFW); Energy Supply (ES); Residential, Commercial and Industrial (RCI); Transportation and Land Use (TLU) and Cross Cutting Issues (CC).

The Commission's Report states that:

> GHG emissions from transportation are tied to carbon-based fuel consumption. In Maryland, the transportation sector accounted for approximately 32 percent of gross GHG emissions in 2005 (about 32.5 million metric tons of carbon dioxide equivalent, or $MMtCO_2e$). From 1990 through 2005, transportation-related GHG emissions in Maryland increased by 8.3 $MMtCO_2e$, comprising 22 percent of the State's net growth in gross GHG emissions during this period and reflecting a 2 percent average annual rate increase in emissions due to transportation fuels.
>
> As a result of Maryland's population and economic growth and a 40 percent increase in total vehicle miles traveled (VMT), on-road gasoline vehicle use grew 36 percent between 1990 and 2005. Meanwhile, on-road diesel vehicle use rose 91 percent during that period, suggesting rapid growth in freight movement within or across the State. In 2005, on-road gasoline vehicles accounted for about 74 percent of transportation GHG emissions, on-road diesel vehicles contributed 18 percent, and aviation, marine vessels, and rail made up most of the remaining 8 percent (Climate Action Plan – Chapter 4, p. 89).

While the state has already taken steps to reduce GHG emissions in the transportation sector, the Commission recommended a package of strategies to reduce GHG emissions. The Commission noted that:

> The solution to reducing transportation-related GHG emissions lies in restructuring our system to offer low GHG options, improving land use to better link existing and future development with transit and walkable communities, and educating individuals to make better transportation choices (Climate Action Plan, Chapter 4, p. 90).

The Commission also acknowledged that the transportation policies:

> …are often complementary and depend on mutual implementation for their success. For example, options that encourage alternatives to automobile use, such as TLU-6, "Pay-as-You-Drive® Insurance*", may be ineffective if alternatives such as mass transit (TLU-3) are not available (Climate Action Plan, Chapter 4, p. 93).

Policy option TLU-6 "Pay-As-You-Drive® Insurance" is an effort to tie insurance premiums to actual hours or miles driven. Proponents of this option assert that this linkage would encourage consumers to drive fewer miles and allow companies to charge actuarially accurate rates (Pay-As-You-Drive® Auto Insurance: A Simple Way to Reduce Driving-Related Harms and Increase Equity, The Brookings Institute, Jason Bordoff and Pascal Noel). Pay-As-You-Drive® insurance is also known as use-based insurance. The premium paid is calculated based on the amount the particular vehicle is driven.

The purpose of this report is to review Pay-As-You-Drive® programs and determine whether any statutory, regulatory or other obstacles exist to their implementation.

Background

Pay-As-You-Drive® insurance is not new to Maryland. In the 2004 session of the General Assembly, Senate Bill 691 was introduced to authorize a pilot program for automobile insurers to offer automobile insurance coverage based on mile-based rating plan and time-based rating plans. The bill also provided a tax credit against premium taxes for policies that were at least 70% based on a mile-based rating plan. This bill failed.

In February 2005, the Automobile Insurance Taskforce was formed to study rates in urban areas. The primary purpose of the task force was to study the rising cost of automobile insurance in certain Maryland jurisdictions and to determine what, if anything, could be done to reduce these rates. One aspect of this study was a review of the various rating plans used in other states to determine if they would benefit Marylanders. One such plan that was reviewed was "TripSense," which had been introduced by Progressive Insurance Group in Minnesota. The plan was designed to match the automobile premium to the actual vehicle usage. The speed, distance driven and time of day usage are factors used to determine premiums. Consumers received a

* Pay-As-You-Drive is a registered service mark of Progressive Casualty Insurance Company.

5% to 25% discount for participating in the program. The task force recommended legislation that would allow insurers to utilize a pilot program to test these Pay-As-You-Drive® programs (SB 938 and HB 1573). These bills also failed.

Ratemaking in Maryland

The rates charged for private-passenger automobile insurance must be actuarially justified and cannot be excessive, inadequate or unfairly discriminatory (Insurance Article §11-306). When establishing rates, insurance carriers rely on a number of factors including:

- Mileage
- Territory
- Coverages & limits
- Age
- Gender
- Use of vehicle
- Marital status
- Credit/financial status
- Make, model & year of vehicle
- Years of driving experience
- Number of operators of the vehicle and/or number of vehicles
- Accident history
- Driving record

Each insurer will determine what weight to give each of these factors based on the company's data and experience. Generally, with respect to mileage, insurance companies rely on the consumer to provide, at the time the policy is written, the number miles they drive annually. In addition, a consumer may qualify for particular discounts, which may include:

- Good student discount
- Multi-vehicle discount
- Multi-policy discount
- Multi-line discount
- Hybrid vehicle
- Carpool
- Safety devices (i.e., antilock brakes, anti-theft)
- Claim free
- College students that don't take vehicles to school
- Miles driven
- Accident free

Progressive's "MyRate" Plan

In the fall of 2008, Progressive Insurance Group started offering its "MyRate" program in Maryland. This is an optional program for consumers to use to satisfy the financial responsibility laws of Maryland. Consumers who elect to participate in this program receive a wireless device that plugs into their car. This device measures "how,

how much and when the car is being driven" (Progressive News Release, September 15, 2008). "Cars driven less often, in less risky ways and at less risky times of day can receive a lower premium (Progressive News Release, September 15, 2008). Customers signing up for the program could receive up to a 10% discount and at renewal could earn up to a 25% discount. There is a thirty dollar technology expense for the cost of the wireless device and transmission of the data. This is imposed each policy period.

<u>MileMeter</u>

Although currently only available in Texas, MileMeter Insurance Company offers a pure mileage based program that may be an attractive choice to Marylanders. MileMeter is a direct writer available to consumers online. The rates are based on the consumer's age, location and vehicle. Consumers purchase between 1000 and 6000 miles of coverage for a 6 month period. If they run out of miles, they may purchase more. Consumers that run out of miles and fail to purchase more miles, will be uninsured. This program relies solely on odometer readings to track mileage. Information is gathered from state inspections and other private maintenance sources.

<u>Obstacles/Consideration</u>

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

1. Pay-As-You-Drive® programs only produce financial rewards for individuals who drive short distances. Individuals lacking access to public transportation or alternatives to driving, such as those who live in rural areas or those who commute to work, will not be inclined to sign up for this type of program as it will not result in any cost savings to them.

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

3. Individuals who sign up for Pay-As-You-Drive® programs are most likely persons who drive a limited number of miles and, as such, the actual reduction in GHG may not add up to the volume projected.

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

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

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

7. The legal requirements that insurers provide notice to policyholders prior to a premium increase, cancellation or nonrenewal of a policy may present a problem for the implementation of these types of programs.

Recommendations

Even though it is unclear to what extent the Pay-As-You-Drive® Program will reduce GHG production, it is beneficial to encourage the expansion of these programs in the state in that they offer more options to consumers. Based on this, it is recommended that meetings be held with insurance carriers to discuss whether they would consider offering Pay-As-You-Drive® programs in the state.