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October 31, 2025

Via Email: jcr.docs@mlis.state.md.us

The Honorable Guy Guzzone
Chair of the Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West
11 Bladen Street
Annapolis, MD 21401

The Honorable Ben Barnes
Chair of the House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, MD 21401

RE: 2025_p61_MIA and Maryland Auto_Report on Rate Assignment by ZIP Code

Dear Chair Guzzone and Chair Barnes:

Enclosed please find the *Report on Rate Assignment by ZIP Code*, prepared by the Maryland Insurance Administration and Maryland Automobile Insurance Fund as mandated by the Joint Chairmen's Report on the Fiscal 2026 State Operating Budget (HB 350) and the State Capital Budget (HB 351) and Related Recommendations ("Joint Chairmen's Report"). *See* page 61.

Five printed copies and an electronic copy of this report have been mailed to the DLS library for its records.

Should you have any questions regarding this Report, please do not hesitate to contact us.

Respectfully yours,

Marie Grant
Insurance Commissioner

Al Redmer, Jr.
Executive Director - Maryland Auto

cc: The Honorable Bill Ferguson. President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Sarah T. Albert, Department of Legislative Services (5 copies)

Report on Rate Assignment by ZIP Code

Marie Grant
Insurance Commissioner

Al Redmer, Jr.
Executive Director - Maryland Auto

October 31, 2025

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This document is available in alternative format upon request
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TTY 1.800.735.2258

The Maryland Insurance Administration's website address: https://insurance.maryland.gov/

The Maryland Automobile Insurance Fund's website address: https://www.mymarylandauto.com

Table of Contents

I. INTRODUCTION

The Joint Chairmen's Report for the 2025 Session (the "2025 JCR") included a request that the Maryland Insurance Administration ("MIA") and the Maryland Automobile Insurance Fund ("Maryland Auto") submit a joint report concerning the impact of rate assignment by ZIP code on the affordability of private passenger automobile insurance. Specifically, the 2025 JCR stated:

> *The Maryland Automobile Insurance Fund (Maryland Auto) applies an affordability index that caps rates for personal automobile insurance in 55 zip codes to ensure that the agency can meet affordability considerations. The Maryland Insurance Administration (MIA) has emphasized that affordability does not appear in codified statutes relating to Maryland Auto's creation and operation. MIA has indicated that the only requirements for Maryland Auto's rates are established by Title 11, Subtitle 3 of the Insurance Article and that the rates should not be excessive, inadequate, or unfairly discriminatory. The committees request a joint report be submitted by Maryland Auto and MIA on the assignment of rates by zip code, noting the impact this rate assignment methodology would have on affordability. This report should discuss areas of agreement between the agencies as well as areas of disagreement. Additionally, the report should describe a way to assign rates by zip code that is recommended by both agencies.*

Maryland Auto and the MIA met and corresponded several times throughout the process of drafting this report. The substantive portion of the report is broken into the following sections, which respond to the committees' inquiries and provide important content to aid the committees' consideration of the responses offered: (1) applicable rating laws; (2) the impact of territorial rating on the affordability of private passenger automobile ("PPA") insurance; (3) an overview of territorial rating by Maryland Auto; (4) an overview of Maryland Auto's Affordability Index; and (5) recommendations concerning the assignment of rates by ZIP code. As requested by the committees, the report identifies areas where Maryland Auto and the MIA have different views, so that the committees may benefit from hearing the agencies' respective perspectives.

II. APPLICABLE RATING LAWS

This section provides an overview of Maryland laws, codified in the Insurance Article unless otherwise indicated, which apply to the matters discussed in this report.

Pursuant to § 20-507(b), Maryland Auto's premium rates may be determined based on:

- The number of points accumulated by an insured or applicant for insurance under the point system provided for in Title 16, Subtitle 4 of the Transportation Article;
- The prior claims experience of an insured or applicant for insurance; and/or
- The rating principles set forth in Title 11, Subtitle 2 and Subtitle 3 of the Insurance Article, including the requirement that rates not be inadequate, excessive, or unfairly discriminatory.

§ 20-507(e) provides: "In reviewing rates filed by [Maryland Auto], the Commissioner shall consider not only the rating principles under Title 11, Subtitle 2 or Subtitle 3 of this article but also the statutory purpose of [Maryland Auto] under § 20-301."

- § 20-301(a) provides: "The purpose of [Maryland Auto] is to provide the financial security required under § 17-103 of the Transportation Article to those eligible persons that are unable to obtain it from an Association member.[1]"
- § 17-103 of the Transportation Article mandates that vehicle owners maintain financial security, typically in the form of a liability insurance policy, to cover bodily injury or property damage resulting from an accident. The statute provides that, at a minimum, this financial security must include: $30,000 in bodily injury liability coverage per person, $60,000 in bodily injury liability coverage per accident resulting in injury to more than one person, and $15,000 in property damage liability coverage per accident.

It is the MIA's opinion that the purpose of Maryland Auto, a statutorily created entity, is limited to the purpose expressly stated in § 20-301(a). It is Maryland Auto's opinion that uncodified language in the preamble of legislation adopted in 1985, to amend what is now § 20-507 added an affordability component to Maryland Auto's purpose. Maryland Auto points to the following language from a January 2004 report by the MIA to support its position[2]:

> *By law, when the Commissioner reviews [Maryland Auto's] rates consideration must not only be given to rate making principles applicable to all insurance companies, "but also to [Maryland Auto's] statutory purpose." This has been interpreted as adding an affordability component to [Maryland Auto's] premiums which results in below adequate premiums or a subsidy for Baltimore City insureds.*

Maryland Auto notes that it has expanded its practice of charging below adequate premiums beyond Baltimore since 2004, to other areas of the State in which it concludes that auto insurance rates have increased at a faster pace than income. However, the majority of insureds that benefit from this practice are still located in Baltimore ZIP codes. The MIA notes that Maryland Auto was in much better financial condition in 2004 than it is today. Between 1989 and 2007, Maryland Auto accrued a surplus, which reached a historic peak of $184 million in 2007. Beginning in 2007, Maryland Auto's surplus steadily eroded, primarily due to rate inadequacies. Eventually, the surplus was depleted to the extent that Maryland Auto issued an assessment (for the first time in 36 years) against the private market in 2025.[3]

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[1] § 20-101(c)(1) defines an "association member" as "an insurer [other than Maryland Auto] that is licensed to write motor vehicle liability insurance or motor vehicle physical damage insurance in the State." In other words, an association member is a licensed private insurer.

[2] The 2004 report, *The Maryland Automobile Insurance Fund and the Private Insurance Market*, is available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/MAIF-and-the-Private-Insurance-Market-2004.pdf.

[3] More historical information about Maryland Auto's surplus level over the years can be found in Section V of the MIA's 2023 JCR report, *Maryland Automobile Insurance Fund and the Private Insurance Market*, available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf.

While Maryland Auto agrees that some of the erosion of its surplus could be related to prior rate inadequacies it would also point out that as the residual market mechanism in the State it has very little control over its book of business, which expands and contracts according to the changing risk appetite of standard carriers. Additionally, Maryland Auto thinks it is important to highlight the significant events that have occurred since 2007, including the Global Financial Crisis of 2008 and the COVID-19 Pandemic beginning in 2020. While Maryland Auto was not alone in experiencing these events, both caused a contraction of Maryland Auto's book of business and significant reduction to investment income. Additionally, following the COVID-19 pandemic, Maryland Auto saw a drastic increase in year-over-year claims receipts (+59%) and related claims payments.

Relevant rating principles under Title 11, Subtitles 2 and 3 are identified below.

- §§ 11-205 and 11-306 provide that rates may not be excessive, inadequate, or unfairly discriminatory. The Maryland Supreme Court has held that, "[u]nfair discrimination, as the term is employed by the Insurance Code, means discrimination among insureds of the same class based upon something other than actuarial risk." *Insurance Commissioner v. Engleman*, 345 Md. 402, 413 (1997).
- §§ 11-205 and 11-306 also provide that rates may not be based wholly or partly on geographic area itself, as opposed to underlying risk considerations, even though expressed in geographic terms.

Maryland Auto acknowledges that the term "affordability" does not appear in §20-507(d). However, Maryland Auto contends that when this section is read as a whole, including §20-507(h)(1)(ii)(1)(C), Maryland Auto and the MIA are statutorily required to consider affordability in some aspects of the determination, collection and financing of premiums. Maryland Auto further maintains that, based on its interpretation of its legal purpose and §20-507 as a whole, it is not required or intended to strictly adhere to the prohibition on rate inadequacy set forth in Title 11, Subtitles 2 and 3. The MIA does not share this view.

III. THE IMPACT OF TERRITORIAL RATING ON THE AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE

When an insurer engages in territorial rating, it assesses the risk of potential claims and losses based on the physical location where a vehicle is primarily parked overnight (i.e., the "garaging address"), and adjusts the location-specific base rate accordingly. Base rates are generally higher for locations with higher concentrations of risk factors, and lower for locations with lower concentrations of risk factors. An individual policyholder may be charged a premium rate that is higher or lower than the applicable base rate due to the type of vehicle they drive and their individual risk factors, such as their driving record, age, gender, and other factors.

The likelihood of accidents leading to claims is higher in areas with high traffic density and accident rates. The likelihood of criminal activity leading to claims is higher in areas with high rates of vehicle theft and vandalism. Such risk factors are often more concentrated in urban areas than in rural or suburban areas. Thus, territorial base rates tend to be higher in urban areas than in rural or suburban areas.

The MIA has heard concerns from legislators and consumers that territorial rating based on garaging address does not account for the fact that many accidents in an urban area involve drivers that reside elsewhere. A more individualized approach to rating that considers an insured's unique driving patterns may become more prevalent as insurers employ more advanced technology. Currently, this type of information can only be verified to the extent that insureds authorize their insurers to monitor their precise driving locations through telematics devices.

In the context of territorial rating, territories can be expressed in different geographical terms. All of the top 13 insurance groups, which together comprise 95% of the PPA insurance market in Maryland, use territory as a rating factor. 11 of these 13 insurance groups define their territories in terms of ZIP codes or groupings of ZIP codes. One of these insurance groups defines its territories more narrowly.

The number of policyholders in a territory significantly affects the accuracy of location-based risk assessment and rating within that territory. The more policyholders an insurer has within a territory, the more data they accumulate on past losses and claims in that territory. With a larger dataset, insurers can use statistical methods, including the Law of Large Numbers, to predict future losses and claims more accurately. This is why, generally speaking, larger insurers tend to use a greater number of smaller territories, whereas smaller insurers tend to use a lesser number of larger territories.

For an insurer with a small book of business, actuarially determined rates may be less credible when smaller territories are used. This is because an insurer that only writes a small number of policies may not have enough data to develop statistically sound smaller territories based on its own loss and claims experience.

The use of smaller territories will likely result in rates that are more refined and accurate for an insurer that has a large book of business. The use of (more) smaller territories allows a large insurer to price its policies more accurately based on the actual risk profile of each territory, potentially leading to fairer premiums for policyholders. Since larger territories tend to be less homogenous than smaller territories, an expansion in the size of an insurer’s territories may result in a situation where some policyholders are effectively subsidizing rates for other policyholders, to some extent.

If territorial rating was prohibited altogether, insurers would be required to establish one base rate for the entire State. As a result, insureds located in areas with territorial rates below the statewide average rate would see their base rates become less affordable. Conversely, insureds located in areas with territorial rates above the statewide average rate would see their base rates become more affordable.

IV. OVERVIEW OF TERRITORIAL RATING BY MARYLAND AUTO

Under Maryland Auto’s current ratemaking methodology, rates are developed based on territories, not ZIP codes. Territories are a grouping of similar ZIP codes based on factors like loss history, including frequency and severity, population density, and current territory. Actuarially justified rates are assigned based on territory.

For physical damage coverages (comprehensive and collision), Maryland Auto divides the State into 9 territories. It assigns a base rate for physical damage coverages to each of the 9 territories, due to a smaller sample size of data affecting territorial credibility. Physical damage coverage is not subject to any affordability measures (i.e., the Affordability Index).

For liability coverages (bodily injury, property damage, economic loss, and uninsured motorist), Maryland Auto divides the State into 7 regions, 15 subregions, and 66 geographic regional areas ("GRAs"). It assigns a base rate for liability coverages to each of the 66 GRAs.

According to Maryland Auto, its Affordability Index attempts to cap liability base rates (for minimum legally required coverage) at 3.3% of the median household income in impacted ZIP codes, but many ZIP codes impacted by the Affordability Index have liability base rates above this threshold. For example, the average liability base rate as of August 31, 2025 for the Baltimore Metropolitan Area (composed of 46 ZIP codes) is 3.9%, or $2,671. In other words, according to Maryland Auto, in some ZIP codes, the base rate starts well above 3.3% of the median household income. In many cases, once individual rating factors (such as driving record, vehicle age, and selected coverages and limits) are considered, the rate for a particular applicant goes up even further.

Maryland Auto submitted certifications with its recent rate filings, as required under §§ 11-216 and 11-319, stating that its use of territorial rating to assign base rates in its 9 territories and 66 GRAs is actuarially justified. However, Maryland Auto acknowledges that its application of an Affordability Index to alter GRA base rates in certain ZIP codes lacks actuarial justification. Rather, Maryland Auto maintains that its Affordability Index is an effort to mitigate the effects of unaffordable rates in low-income communities.

V. OVERVIEW OF MARYLAND AUTO'S AFFORDABILITY INDEX

Maryland Auto applies its Affordability Index in an effort to mitigate the effects of unaffordable rates for Maryland Auto policyholders residing in low-income, high-cost communities. Maryland Auto's Affordability Index is inspired by a similar index that was established by the Federal Insurance Office ("FIO"), and described in a 2017 FIO report.[4] An overview of FIO's affordability index is as follows:

- FIO's affordability index only applies only to "Affected ZIP Codes," which are ZIP codes that have: (1) a majority-minority population; or (2) median family income less than 80% of the median family income in the relevant Metropolitan Statistical Area ("low or moderate income").
- FIO's affordability index is based on the average annual cost of PPA liability insurance *on the voluntary (i.e., private) market* relative to median income.

[4] The 2017 FIO report, *Study on the Affordability of Personal Automobile Insurance*, is available at: https://home.treasury.gov/system/files/311/FINAL%20Auto%20Affordability%20Study_web.pdf.

- FIO's affordability index ratio is calculated as: Average Annual Written PPA Liability Premium *on the Voluntary Market* ÷ Median Household Income.
- Based on data from the 2013 and 2015 Bureau of Labor Statistics' Consumer Expenditure Survey, FIO concludes that the average U.S. household *insured through the voluntary market* spends approximately 2% of its annual income on PPA liability insurance.
- FIO deems PPA liability insurance to be unaffordable in an Affected ZIP Code with an affordability index ratio above 2%.

Maryland Auto uses a slightly higher affordability index ratio than FIO (3.3% versus 2%), in acknowledgement of the fact that auto insurance rates are generally higher on the residual market than the standard market. FIO addressed this point in its 2017 report as follows:

> *The personal auto insurance marketplace, broadly speaking, has three segments based on risk profile categories: (1) the standard market, which consists of all drivers except those in the nonstandard market and the residual market; (2) the non-standard market, which usually includes high risk drivers such as new drivers, drivers with moving violations, drivers with rare or unusual cars, or drivers with more frequent incidences of insurance policy cancellation or nonrenewal; and (3) the residual market, which generally includes drivers with the highest risk of submitting a claim. Generally, premiums are highest in the residual market, followed by the non-standard market, and of course the lowest premiums are in the standard market.*

As noted above, Maryland Auto applies its Affordability Index to suppress liability base rates in ZIP codes where the territorial (GRA) liability base rates are estimated to be above 3.3% of the median household income. Maryland Auto does not apply its Affordability Index to suppress territorial base rates for physical damage coverages in any ZIP code.

As of August 31, 2025 - the effective date of the Maryland Auto rate filing most recently approved by the MIA - Maryland Auto applies its Affordability Index to 47 ZIP codes. 30 of these 47 ZIP codes are located in GRAs to which Maryland Auto assigned territorial base rates higher than the statewide average rate. In the 2024 JCR report that was jointly submitted by the MIA and Maryland Auto, Maryland Auto explained its methodology for selecting ZIP codes subject to its Affordability Index as follows[5]:

> *Maryland Auto's annual liability base rates vary widely around the State (from $866 in Somerset County to $2,831 in Baltimore City). As a result, an individual buying a minimal limit, liability only policy in Baltimore City pays $2,000 more before driving records and other considerations like loss history are applied. So, for zip codes with similar median household income the insurance is more affordable in Somerset County than in Baltimore City.*

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[5] The MIA-Maryland Auto 2024 JCR Report, *Methods for Determining Auto Insurance Rate Affordability*, is available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Methods-for-Determining-Auto-Insurance-Rate-Affordability.pdf.

> *The base rates are developed from Maryland Auto's loss experience in each territory. A territory that has high losses due to accidents, theft, vandalism, fraud, etc. has high base rates and everyone in that territory starts with the same high base rates before driving records and individual loss experience are considered. An individual with a good driving record but characteristics that led to rejection by the private market (credit, new driver etc.) would have the same base rate as a high-risk driver. A high base rate coupled with a low to average median household income results in the application of the affordability index.*

In several instances, Maryland Auto applies its Affordability Index to some ZIP codes within a GRA, but not others. Thus, application of the Affordability Index undermines Maryland Auto's territorial rating system based on actuarial risk and, in the MIA's opinion, results in unlawfully discriminatory treatment of policyholders on the basis of something other than actuarial risk (i.e., median household income).

The MIA retained an actuarial consulting firm, Taylor & Mulder, last year to evaluate a (then pending) Maryland Auto rate filing with a proposed effective date of January 24, 2025, and Maryland Auto's application of the Affordability Index under the filing. The firm's findings were discussed in detail in the 2024 JCR report that was jointly submitted by the MIA and Maryland Auto. A few key findings are summarized below.

- Taylor & Mulder concluded that base rates in ZIP codes subject to the Affordability Index were inadequate, and must be raised above the rates proposed in the filing to avoid future assessments on the private market.
- Taylor & Mulder concluded that Maryland Auto's application of the Affordability Index results in unfairly discriminatory rates. This is because the index effectively reduces rates (via a rate cap) for policyholders residing in certain ZIP codes, but not policyholders with the same risk characteristics residing in other ZIP codes.
- Taylor & Mulder noted that Maryland Auto's application of the Affordability Index suppresses rates for high-income policyholders residing in low-income ZIP codes, but not low-income policyholders residing in high-income ZIP codes. This anomaly seems inconsistent with Maryland Auto's justification for the Affordability Index.
- Taylor & Mulder observed that Maryland Auto's application of the Affordability Index to suppress base rates in certain ZIP codes creates the potential for adverse selection. Individuals who are located in ZIP codes subject to the Affordability Index and would be charged higher rates by private insurers, due to individual and/or location-based risk factors, may have a financial incentive to seek coverage through Maryland Auto. The resultant adverse selection would further concentrate risk factors, and likely drive up loss ratios, in ZIP codes subject to the Affordability Index.

Maryland Auto concedes that its application of the Affordability Index creates a potential for high-income policyholders residing in low-income ZIP codes to see less than fully adequate rates. However, practically and anecdotally speaking, Maryland Auto does not believe it insures enough high-income policyholders for this to be a material issue. Further, Maryland Auto asserts that high-income policyholders would likely require coverage beyond the minimal-limits liability coverage to which the Affordability Index applies.

Every six months, the MIA updates its *Comparison Guide to Automobile Insurance Rates in Maryland*. The guide presents various scenarios based on risk characteristics of hypothetical consumers, and lists premium rates that Maryland Auto and licensed private insurers would offer to such consumers. The most recent iteration of the guide (published in August of 2025),[6] indicates that Maryland Auto rates are competitive with the private market in a few instances, but not most. The guide also identifies which insurers use credit as a rating factor, and indicates that Maryland Auto and several private insurers do not.

In December of 2024, the MIA issued an order letter to Maryland Auto which:

- Stated that the rates proposed under the aforementioned filing were inadequate and, with respect to the Affordability Index, unfairly discriminatory;
- Indicated that, despite the MIA's concerns with the rate filing, it was approved for implementation on January 24, 2025 to enable Maryland Auto to increase its rates somewhat and mitigate its operating losses (the basis for assessing the private market);
- Ordered Maryland Auto to file new proposed rates by May 1, 2025 with an expected implementation date of July 1, 2025, and include in that filing a plan to address any remaining inadequacy of its rates;
- Directed Maryland Auto to eliminate the use of the Affordability Index (in its current form) over a period of two years, and address the gradual elimination of the Affordability Index in its July 1, 2025 filing; and
- Required that as of December 31, 2026 and thereafter, rates in each ZIP code to which Maryland Auto has applied the Affordability Index be actuarially justified and consistent with the territory, as required by § 11-319 of the Insurance Article.

In March of 2025, the MIA amended the order letter, in response to a request by Maryland Auto. The MIA agreed to the amendments requested by Maryland Auto in order to avoid "rate shock" among policyholders in affected ZIP codes, and to allow adequate time for Maryland Auto to research and vet alternatives to the Affordability Index. The order letter was amended as follows:

- The expected implementation date for the required rate filing in Calendar Year 2025 was extended until August 31;
- The due date for the plan to gradually eliminate the Affordability Index was extended until March 1, 2026 (60 days following the submission of the report required under HB 1098 of the 2025 Session); and
- The date by which Maryland Auto must eliminate its use of the Affordability Index and come into compliance with the other requirements described in the order letter was extended until December 31, 2027.

Maryland Auto believes it is important for the committees to be aware of the following:

- Following Maryland Auto's January 24, 2025 rate increase, its PPA policy count declined by nearly 10% and net written premium has declined year-over-year by approximately 24.8%, signaling significant Maryland Auto policyholder pricing sensitivity. Maryland Auto has also seen significant shifts in coverage mix purchased

[6] The August 2025 edition of the MIA's *Comparison Guide to Automobile Insurance Rates* in Maryland is available at: https://insurance.maryland.gov/Consumer/Documents/publicnew/AutoRateGuide.pdf.

by PPA policyholders. As of August 2024, 30.9% of new PPA policies were written with comprehensive and collision coverage. As of August 2025, this has declined to 19.5%.

- Considering Maryland Auto's role as the insurer of last resort, applicants are supposed to have been rejected by at least two standard carriers (or cancelled by one) to qualify for coverage through Maryland Auto. Unaffordable rates could mean the difference between a vehicle owner becoming minimally insured or going uninsured altogether.
- As of January 2025, Maryland Auto's average cancellation rate for the prior 12 months was 53.7%. At the end of August 2025, Maryland Auto's average cancellation rate for the prior 12 months was 59.7%.
- Pursuant to § 17-106 of the Transportation Article and § 20-614 of the Insurance Article, Maryland Auto's Uninsured Division receives notice from the Motor Vehicle Administration ("MVA") of any vehicle registration suspended for insurance termination or lapse. As part of its education and outreach efforts, the Uninsured Division contacts these vehicle owners. The number of letters sent to vehicle owners with recent insurance-related registration suspensions has increased by 20% year-to-date (between January 1 and September 18) 2025, as compared to the same period in calendar year 2024. Maryland Auto represents approximately 1.5% of the PPA market in Maryland. A recent analysis shows that 7% of the newly uninsured notices that Maryland Auto receives were previous Maryland Auto policyholders. If the decline in Maryland Auto's book of business was not leading to an increase in the number of uninsured drivers, the percent of previous Maryland Auto policyholders would mirror Maryland Auto's market share of 1.5%. The higher 7% figure suggests that more often, when a Maryland Auto policyholder leaves, they are likely to go uninsured.

In response to Maryland Auto's points above, the MIA notes the following:

- There is no reason to think that (lower risk) drivers insured through the private market are any less price sensitive than (higher risk) Maryland Auto policyholders. Yet, private insurers are required to charge adequate rates to ensure that they remain solvent (able to pay claims), as there is no assessment mechanism available to them. It is possible that some individuals who were previously insured by Maryland Auto opted to move to the private market following rate increases that brought Maryland Auto rates closer to adequacy. The MIA would consider that a desirable outcome. In the event and to the extent that individuals previously insured by Maryland Auto have opted to go uninsured, the MIA agrees that would be a concerning issue.
- It seems likely that the increase in the number of vehicle suspensions due to insurance terminations or lapses in the first several months of 2025 versus the first several months of 2024 may be primarily attributable to the effectiveness of the MVA's Online Insurance Verification ("OLV") Program and weekly Book of Business ("BoB") reporting process. As of January 1, 2025, insurers are required to participate in the OLV Program and electronically submit their current BoB to the MVA on a weekly basis, pursuant to 2024 Maryland Laws Ch. 73 (SB 254 and HB 229). These initiatives enable the MVA to monitor and verify in real-time the status of insurance policies covering vehicles registered in Maryland, greatly enhancing the MVA's

ability to accurately identify and quickly act upon instances of unlawful lapses in coverage. The MVA reports that, as of January 1, 2025, all insurers had implemented the weekly BoB reporting requirement. The MVA further reports that, as of September 30, 2025, 96% of insurers were participating in the OLV Program, with the remainder testing or seeking third-party vendor services to bring them into compliance with the participation requirement.

VI. RECOMMENDATIONS CONCERNING THE ASSIGNMENT OF RATES BY ZIP CODE

The MIA does not take issue with the assignment of base rates to defined geographic areas (e.g., ZIP codes) based on underlying risk considerations, so long as the rates are adequate, actuarially sound, and otherwise compliant with applicable rating laws. The MIA does not challenge the legality of Maryland Auto's assignment of base rates for physical damage coverages in its 9 territories or liability coverages in its 66 GRAs. However, the MIA emphasizes that Maryland Auto is not *required* to use territorial rating, and would lower liability base rates in approximately 64% of the ZIP codes subject to its Affordability Index by ceasing this practice. The MIA also notes that Maryland Auto may, consistent with current law, consider expanding the size of and reducing the number of the territories it uses to assign liability base rates. This approach may enable Maryland Auto to retain some benefits of territorial rating (aligning premium base rates with location-based risk), while mitigating the impact of territorial rating on policyholders residing in territories that have a high concentration of risk factors, such as Baltimore City. Maryland Auto understands the premise of the MIA's proposition but believes there could be some detrimental downstream effects, especially in suburban and rural areas within the State. Maryland Auto intends to explore various options related to its territories with an actuarial firm.

The threshold for affordability in the context of PPA insurance is arguably subjective, but would presumably depend on the cost of insurance and the financial resources available to policyholders. The amount of financial resources available to an individual is typically measured by income (e.g., when assessing eligibility for various forms of public assistance), though there are other sources of wealth.

It is the MIA's position that rates must be adequate, without exception, under current law. Further, it is the MIA's position that premium discounts based on income, whether measured on an individual or ZIP code level basis, is not permitted under current law. The MIA views the question of whether these aspects of the law should be altered as a policy question for the General Assembly. The MIA notes a few things that might be helpful to the General Assembly's consideration of this policy question:

- Under current law, Maryland Auto's purpose is to act as a residual market mechanism, and not as a low-cost insurance program. Residual market mechanisms are designed to address a gap in the private insurance market (typically by writing risks that private insurers do not have an appetite for), not to compete with the private insurance market.[7] The MIA highlights the fact that a change to Maryland Auto's purpose may necessitate multiple amendments under Title 20 of the Insurance Article.

  - The limited circumstances in which Maryland Auto is statutorily authorized to offer rates that are competitive with rates on the private market are described in § 20-508(a): "A policyholder is entitled to continuation of coverage from [Maryland Auto] at rates that are reasonably comparable to those charged by standard insurers and approved by the Commissioner if, for 3 continuous years of coverage under a policy issued by [Maryland Auto], the policyholder has not: (1) been charged with a moving traffic violation; (2) had a chargeable traffic accident; and (3) been assessed more than one point by the Motor Vehicle Administration."
  - § 20-502(a)(3) provides that Maryland Auto is only authorized to sell, issue, and deliver a policy that provides the security required under § 17-103 of the Transportation Article to a person that: (i) has attempted in good faith to obtain a policy that provides the security required under § 17-103 of the Transportation Article from at least two Association members and has been rejected or refused the policy by two Association members for any reason other than nonpayment of premiums; (ii) has had a policy that provides the security required under § 17-103 of the Transportation Article canceled or nonrenewed by an Association member for any reason other than nonpayment of premiums; or (iii) has had a motor vehicle liability insurance policy but has been uninsured for a continuous period of 12 months or more immediately preceding the effective date of the Maryland Auto policy, as verified by a commercial third-party database or a State agency.

- Maryland Auto's current (ZIP-code based) Affordability Index does not consider the income of individual policyholders. Thus, high-income individuals residing in low-income ZIP codes benefit from the index, whereas low-income individuals residing in high-income ZIP codes do not. The General Assembly may wish to consider a more individualized approach to assessing eligibility for subsidized rates.
- Premium discounts for low-income Maryland Auto policyholders would have to be subsidized through higher rates paid by other Maryland Auto policyholders or assessments on the private market, unless the General Assembly makes another funding source available for this purpose. Assessments on the private market would likely be passed onto Marylanders insured by private insurers.[8]
- In the 2024 JCR report that was jointly submitted by the MIA and Maryland Auto, Maryland Auto provided an overview of approaches that have been taken in other states to subsidize rates on the residual market (e.g., via a flat rate surcharge on each vehicle insured through the private market) or establish a stand-alone low cost insurance plan that offers reduced coverage to persons who have good driving records and meet income eligibility requirements (e.g., the California Low-Cost Auto

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[7] For more information about residual market mechanisms, see the MIA's 2023 JCR Report, *Maryland Automobile Insurance Fund and the Private Insurance Market*, available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Joint-Chairmens-Report-Maryland-Automobile-Insurance-Fund-and-the-Private-Insurance-Market.pdf.

[8] § 20-406 permits a private insurer to recoup its portion of a Maryland Auto assessment (apportioned according to market share) via an assessment surcharge on each policy of motor vehicle liability or physical damage insurance that it writes or renews during the 1-year period following notice of the assessment.

Insurance Plan). While the MIA does not take a position on any of these approaches, it would encourage the General Assembly to review Maryland Auto's prior analysis of these approaches when considering legislative action on this matter.

Maryland Auto offers the following additional suggestions for the General Assembly's consideration:

- To alleviate potential disruption or drastic pricing increases, the General Assembly could authorize Maryland Auto to continue to use ZIP codes as an approach to affordability.
- Maryland Auto would support legislation that furthers its mission of ensuring auto insurance accessibility for Maryland citizens who qualify for its affordability program.

Finally, the MIA notes that it is chairing a workgroup currently working on a study and report concerning the affordability of PPA insurance in the State more generally, pursuant to 2025 Maryland Laws Ch. 395 (HB 1098). Maryland Auto has a seat on the workgroup, along with two legislators and stakeholders representing PPA insurers, PPA insurance producers, and consumers. The workgroup report, which will be submitted to the Governor and General Assembly by January 1, 2026, may include information relevant to the committees' consideration of matters discussed herein.