EXPOSURE DRAFT

Workgroup Report on the Affordability of Private Passenger Automobile Insurance

2025 Maryland Laws Ch. 395

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I. EXECUTIVE SUMMARY

The executive summary will be added once the content of the Report has been finalized.

II. INTRODUCTION

Uncodified language in Section 2 of 2025 Maryland Laws Ch. 395 (H.B. 1098) directed the Maryland Insurance Administration (the "MIA") to establish a workgroup to conduct a study of the affordability of private passenger automobile ("PPA") insurance in the State and report its findings and recommendations to the Governor and the General Assembly. As directed in the legislation, the MIA convened a workgroup consisting of the following members:

- The Insurance Commissioner (workgroup chair and representative of the MIA);
- The Executive Director of the Maryland Automobile Insurance Fund ("Maryland Auto");
- Senator Dawn Gile (member of the Senate Finance Committee appointed by the President of the Senate);
- Delegate David Fraser-Hidalgo (member of the House Economic Matters Committee appointed by the Speaker of the House);
- The Vice-President & State Government Relations Counsel of the American Property Casualty Insurance Association (representative of an automobile insurer trade association appointed by the chair);
- The Executive Director of Economic Action Maryland Fund (representative of a consumer advocacy group appointed by the chair); and
- The President of Joseph W. McCartin Insurance, Inc. (representative of PPA insurance producers appointed by the chair).

During the course of its study, the workgroup held four virtual meetings that were open to the public. At these meetings, workgroup members gave and received presentations, heard stakeholder feedback, and shared their opinions on the matters studied. Furthermore, the workgroup solicited, received, and considered written feedback from stakeholders. Recordings of the meetings, agendas for the meetings, slideshows presented at the meetings, written feedback submitted by stakeholders, and other materials considered by the workgroup can be accessed on the MIA's website.[1]

This Report presents the workgroup's findings and recommendations regarding each of the following topics it was charged with studying under 2025 Maryland Laws Ch. 395:

- Ways in which the term "affordability" has been or may be defined in the context of the establishment of PPA insurance premium rates;
- The affordability of PPA insurance in the State, including factors that contribute to premium rate increases and trends in rate increases;

[1] Workgroup materials are available at: https://insurance.maryland.gov/Consumer/Pages/Private-Passenger-Automobile-Insurance-Affordability-Workgroup.aspx.

- Policy options to provide greater transparency regarding PPA insurance premiums and to increase the affordability of PPA insurance in the State;
- Methodologies by which affordability can be considered in establishing PPA insurance rates consistent with rate making principles codified in the Insurance Article; and
- The current financial status of PPA insurers in the State and potential options to address excess profits.

Consensus was not always possible on each of the workgroup's charges. Where consensus was not possible, different views are noted in the Report.

III. DEFINING "AFFORDABILITY"

The workgroup identified two possible definitions of "affordability" that may apply in the context of analyzing and considering policy interventions relating to PPA insurance premiums. The first was set forth by the Federal Insurance Office ("FIO") in its *Study on the Affordability of Personal Automobile Insurance*, published in January of 2017. The second was set forth by the Insurance Research Council ("IRC") in its brief, *Personal Auto Insurance Affordability: Countrywide Trends and State Comparisons*, published in March of 2025. Both FIO and the IRC apply a premium-to-income ratio to assess affordability. This section of the Report provides a detailed description of the differences in how the respective ratios are calculated.

A. FEDERAL INSURANCE OFFICE'S AFFORDABILITY INDEX

FIO's 2017 report applies a premium-to-income ratio to gauge whether the average cost of legally mandated PPA liability insurance was affordable for persons residing in affected ZIP codes based on premium data from July 1, 2014 through June 30, 2015.[2] FIO defines an "affected ZIP code" as one with: (1) a majority-minority population; or (2) median family income that is less than 80% of the median family income for the relevant Metropolitan Statistical Area. **FIO's affordability index is calculated as: average annual written premium for PPA liability coverage *on the voluntary market* ÷ median household income of the affected ZIP code.**[3] FIO's 2017 study "presumes" that PPA liability insurance is unaffordable for persons residing in an affected ZIP code with an affordability index ratio greater than 2%, which is the approximate percentage of average income that consumers in the U.S. spend on auto insurance. FIO reported the following Maryland-specific data points for July 1, 2014 through June 30, 2015:

- 146 of the 468 ZIP codes in Maryland (31.2%) were affected ZIP codes;
- 45.9% of the State's population resided in affected ZIP codes; and
- 12.4% of the State's population resided in affected ZIP codes with an affordability index ratio greater than 2%.

[2] *Study on the Affordability of Personal Automobile Insurance*, FIO (Jan. 2017): https://home.treasury.gov/system/files/311/FINAL%20Auto%20Affordability%20Study_web.pdf.

[3] It should be noted that FIO's affordability index ratio does not consider the cost of PPA liability insurance purchase through the residual market (i.e., through the Maryland Automobile Insurance Fund in Maryland).

In January of 2025, FIO published a second report assessing the affordability of PPA liability insurance in affected ZIP codes.[4] This report is based on premium data for 2022 and acknowledges that "no single Premium-to-Income ratio can define 'affordability' for all consumers." While it retains the 2% affordability index ratio threshold established in the 2017 study, the 2025 report also presents data on hypothetical 1.5% and 3% thresholds to aid in expanded analysis. FIO reported the following Maryland-specific data points for 2022:

- 162 of the 466 ZIP codes in Maryland (34.8%) were affected ZIP codes;
- 52.6% of the State's population resided in affected ZIP codes;
- 16.8% of the State's population resided in affected ZIP codes with a premium-to-income ratio greater than 1.5%;
- 6.1% of the State's population resided in affected ZIP codes with a premium-to-income ratio greater than 2%; and
- 2.1% of the State's population resided in affected ZIP codes with a premium-to-income ratio greater than 3%.

B. INSURANCE RESEARCH COUNCIL'S AFFORDABILITY INDEX

The IRC's 2025 brief ranks each state based on the affordability of PPA insurance for its overall population, using 2022 premium data.[5] In the brief, the IRC measures affordability based on the average cost of PPA insurance for all consumers in a state relative to statewide median income. **To arrive at the average PPA expenditure in a state, the IRC divides total written premium *on both the voluntary and residual markets* by the number of cars insured under liability coverage for a full year.** Unlike FIO, the IRC does not consider only written premium for required liability coverages that all insureds carry, but also written premium for optional physical damage coverages (collision and comprehensive) that many insureds chose to carry.

The IRC affordability index is calculated as: average annual PPA insurance expenditure ÷ statewide median household income. The IRC describes its affordability index as "a tool to measure and compare auto insurance affordability over time and across jurisdictions," rather than a means of establishing a threshold for affordable insurance. The IRC notes "[s]uch a threshold would be subjective, as different parties can reasonably disagree about what would constitute affordable insurance." In its brief, the IRC ranked Maryland as the 18th most affordable state for PPA insurance in 2022 with a 1.18% affordability index ratio.

C. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING THE DEFINITION OF "AFFORDABILITY"

[4] *Report on Personal Auto Insurance Markets and Technological Change*, FIO (Jan. 2025): https://insurance.maryland.gov/Consumer/Documents/agencyhearings/FIO%20January%202025%20Report%20on%20Personal%20Auto%20Insurance%20Markets%20and%20Technological%20Change.pdf.

[5] *Personal Auto Insurance Affordability: Countrywide Trends and State Comparisons*, IRC (Mar. 2025): https://www.insurance-research.org/auto-injury-claims-trends/personal-auto-insurance-affordability-countrywide-trends-and-state.

The workgroup agrees that the FIO definition of "affordability" articulates a reasonable conceptual framework for monitoring and evaluating trends in the affordability of PPA insurance over time. The workgroup prefers the FIO definition over the IRC definition, because the FIO definition reflects the reality that lower income households are acutely affected by general increases in PPA premium rates. The workgroup does not endorse either definition for inclusion in legislation to establish a literal affordability threshold for PPA insurance. Several stakeholders expressed concern that a legally prescribed threshold may inhibit insurers' ability to rate individual policies based on factually supported assessment of the level of risk associated with writing those policies. Finally, the workgroup discussed complications around the meaningful evaluation of the affordability of PPA insurance over time - affordability of PPA insurance is more complicated than applying a static premium-to-income ratio, and must consider the cost factors at play. Laws, economic conditions, and other circumstances that impact PPA insurance costs and affordability for consumers can and do change over time. The workgroup recommends that the MIA periodically report on Maryland's metrics with regard to the FIO definition of "affordability."

IV. THE AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE IN THE STATE

A. TRENDS IN PREMIUM RATE INCREASES

In Maryland and across the nation, personal auto losses, and in turn, premium rates increased significantly in the aftermath of the COVID-19 pandemic due to changes in economic and social factors. In its 2025 brief, the IRC explains: "Insurance losses soared in 2021 and 2022 as miles travelled began to recover, boosted by high rates of overall economic inflation, rising severity in injury claims from deteriorating driving behavior and legal system abuse, and escalating vehicle repair and replacement costs from supply chain disruptions."[6] The data below on changes in average premium rates for PPA insurance in Maryland between 2021 and 2023 is illustrative. This data was reported by the National Association of Insurance Commissioners ("NAIC") in its *2023 Auto Insurance Database Average Premium Supplement*, published in June of 2025.[7]

- The liability average premium (average premium for bodily injury, property damage, and uninsured/underinsured motorist coverage required under State law) was:
  - $717 in 2021;[8]
  - $755 in 2022 (+ 5.23% from 2021); and
  - $869 in 2023 (+ 15.1% from 2022).
- The combined average premium (liability average premium + collision average premium + comprehensive average premium) was:
  - $1,304.04 in 2021;

[6] *Id*.
[7] *2023 Auto Insurance Database Average Premium Supplement*, NAIC (Jun. 2025): https://content.naic.org/sites/default/files/aut-db_1.pdf.
[8] Note that the COVID-19 State of Emergency in Maryland ended on July 1, 2021.

- $1,389.11 in 2022 (+ 6.52% from 2021); and
- $1,602.31 in 2023 (+ 15.34% from 2022).

Rate filings recently submitted to the MIA indicate that general premium rate increases have significantly abated as inflationary pressures have cooled and projected increases in insurers' costs and expenses have improved. Between January 1 and November 20 of 2025, only five of the top ten PPA carriers filed any rate changes with the MIA.

An "indicated rate change" is the difference between the current rate level and the indicated rate level (i.e., the rate level that actuaries have projected necessary to achieve a balance between expected premium income and expected losses and expenses). A "proposed rate change" is the rate change that a carrier actually files with the MIA. The chart below presents data on cumulative annual rate changes for the top ten PPA carriers (which accounted for 70.4% of total written premium in 2024) from 2017 to 2025 (as of November 20). This data suggests that spikes in insurers' projected losses and expenses, as well as resultant spikes in filed rate increases that were seen in the years immediately following the COVID-19 pandemic, have subsided.

CUMULATIVE INDICATED RATE CHANGE - TOP 10 CARRIERS			
SUBMISSION YEAR	**HIGH**	**LOW**	**RANGE**
2025 (as of 11/20)	3.6%	-15.1%	18.7%
2024	30.2%	2.9%	27.3%
2023	49.7%	7.5%	42.2%
2022	57%	9.8%	47.3%
2021	27.4%	1.9%	25.5%
2020	13.9%	-6.7%	20.6%
2019	16.4%	-6.3%	22.7%
2018	14.0%	-0.3%	14.3%
2017	29.0%	-1.7%	30.8%

CUMULATIVE PROPOSED RATE CHANGE - TOP 10 CARRIERS			
SUBMISSION YEAR	**HIGH**	**LOW**	**RANGE**
2025 (as of 11/20)	3.5%	-15.0%	18.5%

2024	24.2%	-0.1%	24.3%
2023	26.3%	7.5%	18.8%
2022	37.1%	8.1%	29.0%
2021	16.3%	1.6%	14.7%
2020	1.9%	-14.6%	16.5%
2019	7.0%	-4.1%	11.1%
2018	6.0%	-0.8%	6.8%
2017	12.5%	-3.8%	16.2%

B. FACTORS THAT CONTRIBUTE TO PREMIUM RATE INCREASES

In its 2025 brief, the IRC identified the following factors (listed in order of impact) as primary cost drivers of PPA insurance rates in Maryland.[9]

- **Accident frequency**: According to the IRC, relative to other states, Maryland has a high number of property damage liability claims filed per 100 earned car years. The factors below may contribute to Maryland's high accident frequency rate.
  - High traffic density: Per the U.S. Census, Maryland was the sixth most densely populated state in 2024.[10] U.S. Census data also indicates that Maryland had the second longest commute time in 2022.[11]
  - Poor road conditions: In March of 2025, the National Transportation Research Nonprofit reported that 49% of major locally and state-maintained roads and highways in Maryland are in poor or mediocre condition, and 5% of Maryland's bridges (250) are in poor/structurally deficient condition.[12]
- **Uninsured motorists**: According to the IRC, relative to other states, Maryland has a high uninsured motorist rate. When an insured driver sustains property damage or physical injury due to an accident caused by an uninsured driver, they must file a claim against their own policy (under uninsured motorist coverage, which all drivers are required to carry under Maryland law). Thus, a high uninsured motorist rate can drive up premium rates. Recent legislative initiatives in Maryland and Virginia are expected to mitigate this issue. Background information and considerations relating to this issue are outlined below.

[9] *Personal Auto Insurance Affordability: Countrywide Trends and State Comparisons*, IRC (Mar. 2025): https://www.insurance-research.org/auto-injury-claims-trends/personal-auto-insurance-affordability-countrywide-trends-and-state.

[10] *Highest Density*, U.S. Census: https://www.census.gov/popclock/embed.php?component=density.

[11] *Commuting in the U.S. Facts and Statistics*, Autoinsurance.com (Apr. 2025): https://www.autoinsurance.com/research/us-commuting-statistics/.

[12] *Maryland Transportation by the Numbers*, National Transportation Research Nonprofit (Mar. 2025): https://tripnet.org/wp-content/uploads/2025/03/TRIP_Maryland_Transportation_by_the_Numbers_Report_March_2025.pdf.

- According to the Insurance Information Institute, Maryland had the 14th highest uninsured driver rate among the 50 states and the District of Columbia in 2023 at 16.9%.[13] The workgroup was unable to locate data pinpointing the impact of legislative reforms implemented since 2023 and expected to have a positive impact on Maryland's uninsured driver rate, and such data may not exist yet.
- On July 1, 2024, Maryland's uninsured driver penalty increased for the first time in over 30 years. The average annual premium for a policy with minimum required liability coverage is less than the maximum annual uninsured driver penalty, so there is no financial incentive to drive a vehicle registered in Maryland without insurance.[14]
- As of July 1, 2024, persons who register their vehicles in Virginia no longer have the option of paying a $500 "uninsured motor vehicle fee" instead of obtaining insurance.[15] Anecdotal evidence suggests that some Maryland residents registered their vehicles in Virginia because the uninsured motor vehicle fee cost less than liability insurance.
- As of January 1, 2025, auto insurers that issue policies in Maryland are required to participate in the Motor Vehicle Administration's Online Insurance Verification Program and electronically submit their current books of business to the Motor Vehicle Administration ("MVA") on a weekly basis.[16] These initiatives enable the MVA to monitor and verify in real-time the status of insurance policies covering vehicles registered in Maryland. In October of 2025, the MVA reported that all insurers were in compliance with the weekly book of business reporting requirement, 96% of insurers were participating in the Online Insurance Verification Program, and these initiatives have increased efficiencies in the MVA's handling of insurance lapse cases. The MVA further reported that "the number of cases closed because the vehicle owner paid the penalty – and therefore the number of identified uninsured vehicles – increased since implementing the new weekly reporting process [from 97,790 between January and August of 2024 to 128,934 between January and August of 2025]."[17]
- In response to an inquiry from the workgroup, the MVA confirmed that the Department of Public Safety and Correctional Services ("DPSCS") does not currently have access to the MVA's Online Insurance Verification Program. The MVA explained that the DPSCS system used by police officers during traffic stops would have to be modified in order to sync with the MVA's Online Insurance Verification Program.

● **Tendency to file injury claims**: According to the IRC, relative to other states, Maryland has a high ratio of bodily injury liability claims to property damage

[13] *Facts + Statistics: Uninsured Motorists*, Insurance Information Institute: https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists.
[14] *See* 2024 Maryland Laws Ch. 857 (H.B. 1482).
[15] *See* 2023 Virginia Laws Ch. 538 (S.B. 951).
[16] *See* 2024 Maryland Laws Ch. 73 (S.B. 254 and H.B. 229).
[17] *Insurance Coverage Verification*, MVA (Oct. 2025): https://dlslibrary.state.md.us/publications/JCR/2025/2025_117(a).pdf.

liability claims. The greater tendency to file injury claims, **coupled with increasing medical costs**, may drive up costs for the following coverages:

- Bodily injury liability coverage (required), which covers medical bills, rehabilitation costs, lost income, and potentially pain and suffering for other injured persons if the policyholder was at fault;
- Medical payments coverage (optional), which covers medical expenses for the policyholder and their passengers, regardless of who was at fault; and
- Personal injury protection coverage (optional), which covers medical expenses, rehabilitation costs, lost income, and funeral expenses for the policyholder and their passengers, regardless of who was at fault.

- **Expense Index**: According to the IRC, relative to PPA insurers in other states, PPA insurers in Maryland spend more to process, investigate, and litigate claims (higher loss adjustment expenses as a percent of incurred losses).
- **Tendency to litigate claims**: According to the IRC, relative to other states, Maryland has a high percentage of PPA insurance claims with litigation. This leads to higher litigation costs for insurers. Tort reform is a multifaceted political issue, which the workgroup members do not share a consensus view on. The workgroup offers the following factual overview of relevant legislation recently enacted or proposed in Maryland, as well as recent tort reform in Florida that has seemingly had positive impacts on market performance.
    - Some workgroup members and other interested parties point to Maryland's atypically high amount in controversy requirement for a civil jury trial as potentially contributing to the high percentage of PPA insurance claims with litigation in the State. 2021 Maryland Laws Ch. 598 (S.B. 670) increased from $15,000 to $25,000 the maximum amount in controversy in a civil action in which a party may not demand a jury trial, contingent on the passage and ratification of a constitutional amendment, which subsequently occurred. Insurers and insurer trade organizations opposed this legislation on the grounds that it might increase the financial incentive for persons who sustain injuries in minor auto accidents to file claims against insurers in district court. They contended that an insurer is disadvantaged in defending against an injury claim in district court, as opposed to circuit court, because discovery of the plaintiff's medical history is restricted and deposition without the plaintiff's consent is generally prohibited. Written testimony submitted in opposition to S.B. 670 noted that Maryland had the highest monetary threshold for a jury trial among all states at that time, and that the change set forth in the bill would make Maryland more of an outlier.[18]
    - Bills were introduced during the 2023, 2024, and 2025 legislative sessions that proposed removing the cap on noneconomic damages in civil cases (which is currently $965,000 and increases by $15,000 each year).[19] Insurers and insurance trade organizations opposed these proposals on the grounds they would result in higher jury awards and lawsuit settlement

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[18] Written testimony submitted on S.B. 670 is available at: https://mgaleg.maryland.gov/mgawebsite/Legislation/WitnessSignup/SB0670?ys=2021RS.

[19] *See* Md. Code Ann., Cts. & Jud. Proc. § 11-108.

    demands, thereby encouraging more litigation of PPA insurance claims.[20] These industry representatives contended that removing the cap on noneconomic damages in civil cases may result in less consistent and wider-ranging verdicts against PPA insurers, making it more difficult for insurers to accurately forecast potential litigation costs. They maintained that insurers would likely have to increase PPA liability insurance premium rates to account for heightened litigation risks.
    - In 2023, Florida enacted tort reform legislation (H.B. 837) that has reduced auto insurers' exposure to litigation and damages. According to the Florida Office of Insurance Regulation, this legislation has resulted in significant rate reductions from multiple auto insurers, with the top five auto insurers (representing 78% of Florida's market) reporting an average rate reduction of 6.5% in 2025.[21] Among other things, the legislation:
        - Replaced the prior pure comparative negligence standard with a modified comparative negligence standard;
        - Shortened the statute of limitations for general negligence actions from four to two years;
        - Established that mere negligence by an insurer is not sufficient to establish bad faith, and that an insurer is not liable for bad faith if they tender the lesser of policy limits or demand within 90 days of receiving notice of a claim and sufficient evidence to support the claim;
        - Mostly eliminated one-way attorney fee awards (except for specific declaratory judgments);
        - Limited evidence that can be offered to prove the amount of damages for past medical treatment to the amount actually paid, regardless of the source of payment; and
        - Required disclosure of third party medical financing, including letters of protection.

The workgroup identified the following additional factors that may adversely impact the affordability of PPA insurance for Maryland consumers.

- **High vehicle theft rate**: According to the National Insurance Crime Bureau and National Highway Traffic Safety Administration:
    - In 2023, Maryland had the eighth highest per capita auto theft rate in the nation at 427.99 thefts per 100,000 residents.[22]

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[20] Written testimony submitted on these bills (H.B. 862 in 2023, H.B. 83 and S.B. 538 in 2024, and H.B. 113 and S.B. 584 in 2025) can be located on the General Assembly's website: https://mgaleg.maryland.gov/mgawebsite/Search/Legislation.

[21] *Commissioner Mike Yaworsky Highlights Continued Auto Insurance Market Strength and Reinsurance Confidence in Florida*, Florida Office of Insurance Regulation (Nov. 2025): https://floir.com/home/2025/11/18/commissioner-mike-yaworsky-highlights-continued-auto-insurance-market-strength-and-reinsurance-confidence-in-florida.

[22] *Vehicle Thefts Surge Nationwide in 2023*, NICB (Apr. 2024): https://www.nicb.org/news/news-releases/vehicle-thefts-surge-nationwide-2023.

- Vehicle thefts decreased nationwide by 17% from 2023 to 2024 (from 1,020,729 to 850,708), marking the largest annual decrease in stolen vehicles in the last 40 years.[23]
- Maryland was no longer ranked among the ten states with the highest auto theft rates in 2024; however, our neighboring jurisdiction of the District of Columbia topped the list in 2024 with 842.40 thefts per 100,000 residents (down from 1,149.71 per 100,000 residents in 2023).[24]

- **Auto repair costs**: In October of 2024, Marketwatch ranked Maryland the third most expensive state for car repairs, primarily due to high mechanic salaries (in line with the State's high median income and cost of living), rough roads, and inflation.[25]
- **Electric vehicle ("EV") uptake**:
  - The primary reason that EVs cost more to insure than gas-powered vehicles is that EVs have a much higher claim frequency and severity for physical damages coverages, which is attributable to the following:[26 & 27]
    - EVs tend to have a higher purchase (and replacement) cost;
    - EV batteries can be dangerous to repair due to their complexity and the risk of battery fires;
    - In many cases, replacing an EV battery is cheaper than repairing it, despite the battery representing up to 50% of an EV's price; and
    - The availability of replacement parts and specialized labor have not kept pace with EV growth.
  - As EVs become more common, their replacement parts should become more accessible. If so, insurance rates for EVs may drop because EVs have lower claim frequencies for liability coverages than gas-powered vehicles.[28]
  - An increased number of EVs on the road may increase certain risks for all drivers.[29] Due to the weight of their batteries, EVs tend to be heavier than gas-powered vehicles. There is a trend toward more powerful (higher-acceleration) EVs, which require even larger batteries. As EV uptake increases and EVs get heavier, the likelihood of collisions involving vehicles with significant weight disparities becomes more likely.

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[23] *Vehicle Thefts in United States Fell 17% in 2024*, NICB (Mar. 2025): https://www.nicb.org/news/news-releases/vehicle-thefts-united-states-fell-17-2024.

[24] *Id*. and *Vehicle Theft Prevention*, NHTSA: https://www.trafficsafetymarketing.gov/safety-topics/vehicle-safety/vehicle-theft-prevention.

[25] *10 States With the Highest Auto Repair Costs*, Marketwatch (Oct. 2024): https://www.marketwatch.com/insurance-services/car-warranty/where-do-car-repairs-cost-the-most/.

[26] *Electric Vehicle Insurance Rates*, NAIC (Feb. 2024): https://content.naic.org/insurance-topics/electric-vehicle-insurance-rates.

[27] *How Do Electric and Hybrid Losses Compare to Gas? Recent Auto Experience Data Provides Insights*, Verisk (Jul. 2024): https://core.verisk.com/Insights/Featured-Insights-Articles/2024/July/How-Do-Electric-and-Hybrid-Losses-Compare-to-Gas.

[28] *Id*.

[29] *As heavy EVs proliferate, their weight may be a drag on safety*, IIHS-HLDI (Mar. 2023): https://www.iihs.org/news/detail/as-heavy-evs-proliferate-their-weight-may-be-a-drag-on-safety.

The larger the weight disparity between two colliding vehicles, the greater the force of impact (and extent of damage) to the lighter vehicle.

- **Increased frequency/severity of weather events**: The impacts of climate change in Maryland include increased precipitation from heavy downpours, more frequent and intense storms, and rising sea-level.[30] Such climate impacts can increase costs for comprehensive coverage, which covers physical damage to a vehicle caused by a weather event, such as hail, flooding, or a tree falling during a windstorm.[31]
- **Excessive Fees for Towing Services**: Members of the workgroup voiced concern that some tow truck companies charge exorbitant fees for towing and storage services. Tactics complained of include charging seemingly unreasonable fees for certain services, such as covering an EV with a fire-suppression blanket, and withholding vehicles under false pretenses to maximize storage fees. Inflated bills from tow truck companies submitted to insurers as claims lead to higher claim costs that drive up premium rates. The workgroup discussed the fact that the Chair of the Senate Judicial Proceedings Committee established a group to study post-towing procedures and report its findings and recommendations to the Committee during the 2026 legislative session. We highlight that separate study for the awareness of those reading this Report.
- **Minimum bodily injury liability coverage requirements**: Generally speaking, higher coverage limits require insurers to collect higher premiums to cover potential claims. Thus, it is relevant to note that Maryland's minimum bodily injury liability coverage requirements are higher than those in most other states.[32]
    - Maryland's minimum liability coverage requirements, set forth in § 17-103(b) of the Transportation Article and § 19–509(c) of the Insurance Article, are as follows:
        - Bodily injury liability coverage of $30,000 for any one person and up to $60,000 for any two or more persons;
        - Property damage liability coverage of $15,000; and
        - Uninsured motorist coverage in the amounts listed above.
    - Three states (California, Minnesota, and Texas) have minimum bodily injury liability coverage requirements that are equivalent to Maryland's requirements.
    - Six states (Alaska, Maine, Michigan, North Carolina, Utah, and Virginia) have minimum bodily injury liability coverage requirements that are higher than Maryland's requirements.

[30] *Impacts of Climate Change*, Maryland Department of Natural Resources: https://dnr.maryland.gov/climateresilience/Pages/Climate-Change-Impact.aspx.

[31] *Severe Weather Spurs Rising Auto Insurance Costs*, Insurify (Mar. 2025): https://insurify.com/car-insurance/news/severe-weather-impact-on-car-insurance-costs/.

[32] *Minimum car insurance requirements by state*, Insurify (Sep. 16, 2025) https://insurify.com/car-insurance/state-minimum-requirements/#:~:text=Bodily%20injury%20liability%20coverage%20pays,per%20person%20for%20four%20people); and *States with minimum car insurance requirement changes for 2025*, Insurance.com (Jul. 9, 2025): https://www.insurance.com/auto-insurance/states-with-minimum-car-insurance-requirement-changes/.

- **Driver's license requirements and provisional license restrictions:** Data collected and reported by the Insurance Institute for Highway Safety-Highway Loss Data Institute ("IIHS-HLDI") suggests that[33]:
    - Increasing the permit age from 15 years and 9 months to 16 years could reduce collision claims involving young drivers in Maryland by 1% and fatal crashes involving young drivers in Maryland by 3%;
    - Increasing the number of practice driving hours required for licensure from 60 to 70 could reduce collision claims involving young drivers in Maryland by 3% and fatal crashes involving young drivers in Maryland by 1%;
    - Increasing the license age from 16 years and 6 months to 17 years could reduce collision claims involving young drivers in Maryland by 3% and fatal crashes involving young drivers in Maryland by 7%; and
    - Changing the time at which provisional license driving restrictions go into effect from midnight to 8:00 PM could reduce collision claims involving young drivers in Maryland by 4% and fatal crashes involving young drivers in Maryland by 9%.
- **Tariffs:** Over the past year, tariff policies under the Trump Administration have been in flux. Due to the currently evolving nature of tariff policies, it is difficult to predict with certainty which tariff policies will persist and how they will impact costs for PPA insurers. It is possible that imported vehicles, vehicle replacement parts, and materials used to manufacture and repair vehicles could become subject to new or increased tariffs. "If insurers have to pay higher replacement costs [as a result of new or increased tariffs], it is very likely that customers will see that reflected in higher insurance premiums."[34]

Reinsurance is a contractual arrangement whereby an insurer (the "primary insurer") transfers some of its policy risks to another insurer (the "reinsurer"), thereby safeguarding the financial stability of the primary insurer and enhancing its ability to underwrite more policies. The primary insurer typically builds a charge to cover its reinsurance premiums into the premium rates it charges to its policyholders. The legislation mandating this Report directed the workgroup to seek and consider input from the reinsurance industry during the course of its study. The Insurance Commissioner also received a request that the workgroup study and report appropriately emphasize considerations relating to the reinsurance market. The workgroup received and considered information from the Reinsurance Association of America ("RAA") on this topic. Based on this information, explained below, the workgroup does not view reinsurance as a significant cost driver of PPA insurance rates in Maryland.

According to the RAA, as well as workgroup members who are active in the auto insurance industry, reinsurance utilization by PPA insurers is minimal due to the nature of

[33] *Graduated Licensing Calculator*, IIHS-HLDI: https://www.iihs.org/research-areas/teenagers/gdl-calculator#calculator.

[34] *How Will Tariffs Impact Auto Insurance Rates? The Academy Is Already Monitoring Possible Effects*, American Academy of Actuaries (May 5, 2025): https://actuary.org/publication-issue/how-will-tariffs-impact-auto-insurance-rates/.

PPA risks and high market concentration. The reinsurance industry predominantly covers property risks (e.g., homeowner's insurance), where exposures tend to be low-frequency but high-severity. PPA insurance, on the other hand, is characterized by high-frequency but low-severity claims. A few large, national carriers account for most of the PPA market in Maryland. These national carriers tend to have low risk concentration (due to geographical diversification) and the ability to retain nearly all of their risk for PPA lines.

The RAA noted that reinsurance is more commonly purchased by commercial auto insurers to protect against: (1) low frequency, high severity events, such as an accident involving a commercial truck and multiple other vehicles that results in bodily injury and property damage claims totalling tens of millions of dollars; and/or (2) situations in which catastrophes, such as severe hail or flooding, damage fleets of commercial vehicles and result in very costly physical damage claims.

C. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING TRENDS IN PREMIUM RATE INCREASES

The workgroup recommends further study into the feasibility of updating the DPSCS system used by police officers during traffic stops so that it can connect with the MVA's Online Insurance Verification Program, thereby enabling officers to accurately identify instances in which the subject of a traffic stop has been driving without insurance. Expanding enforcement capabilities in this manner may result in higher rates of compliance with Maryland PPA insurance requirements and positively impact the affordability of uninsured motorist coverage for Maryland consumers.

The workgroup also recommends further study into whether changes should be made to Maryland laws pertaining to driver's license eligibility requirements and provisional license restrictions to reduce collision claims and fatal crashes involving teen drivers. The workgroup stresses that any such study should consider adverse effects that more burdensome licensure requirements could have on the economic opportunities and overall quality of life available to Maryland families.

V. POLICY OPTIONS TO INCREASE TRANSPARENCY AND AFFORDABILITY

As a preliminary matter, the workgroup acknowledges that there are limitations on the extent to which action on the state-level can mitigate certain factors that tend to drive up PPA insurance premium rates (e.g., inflation and supply chain issues). The workgroup also acknowledges that, in certain instances, the public benefit of a legislative or policy action may outweigh the potential adverse impact of such action on the affordability of PPA insurance. This section of the Report outlines relevant provisions of current Maryland law and identifies policy interventions that may increase transparency surrounding and enhance the affordability of PPA insurance premium rates in Maryland.

A. POLICY OPTIONS TO INCREASE THE AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE IN THE STATE

1. TYPES OF RATE REGULATORY SYSTEMS IN MARYLAND AND OTHER STATES

The National Association of Insurance Commissioners ("NAIC") has identified seven types of rate regulatory systems implemented by states.[35] They are listed below, from most to least restrictive.

- Determined by Commissioner: Rates are set by the state's insurance commissioner.
- Prior Approval: Rate changes must be filed with and approved by the regulator before they can be implemented. Approval can be by means of a deemer provision, which indicates approval if filed rates are not denied within a specified number of days.
- Modified Prior Approval: Rate revisions involving change in expense ratio or rate relativity require prior approval. Rate revisions based on experience only are subject to "file and use" laws.
- Flex Rating: Prior approval of rate changes are required only if they exceed a specified percentage above (and sometimes below) the previously filed rates.
- File and Use: Rates must be filed with the regulator prior to use. Specific approval is not required.
- Use and File: Rates must be filed with the regulator within a specified period after they have been implemented.
- No File: Rate changes are not required to be filed with or approved by the regulator; however, the company must maintain records of information used to develop the rates and make them available to the regulator upon request.

Several states, including Maryland, moved from a prior approval regulatory system to a file and use (i.e., "competitive rating") regulatory system during the 1990s to allow insurers to react quickly to business cycles by decreasing rates when claims experience is favorable and increasing rates when claims experience deteriorates. Maryland adopted this change in its approach to regulating rates for PPA (private market) and certain other lines of property and casualty insurance via the Insurance Reform Act of 1995. The resultant

[35] The types of rate regulatory systems are discussed in the NAIC's *2021/2022 Auto Insurance Database Report* (Jan. 2025), available at: https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf.

"competitive rating laws" (codified at Title 11, Subtitle 3 of the Insurance Article) provide in part that:

- Each authorized insurer and designated rating organization must file all rates and supplementary rate information, as well as any changes thereto, on or before the date they become effective; and
- The MIA may not disapprove a filed PPA insurance rate as excessive unless the Commissioner has determined that the rate is unreasonably high for the insurance provided and issued a ruling that a reasonable degree of competition does not exist in a market to which the rate is applicable.

Proponents of competitive rating maintain that competition between insurers prevents excessive rates because an insurer is not willing to raise rates to the point where it will lose significant market share to one or more competitors. The rationale underlying this system of rate regulation is that competition encourages insurers to accept more risks, thereby making insurance more widely available. The MIA publishes a report annually on the effect of competitive rating on insurance markets in the State. More specifically, the report provides information on competitiveness in the PPA and homeowners insurance markets during the preceding calendar year, taking into account the number of insurers in the marketplace, the concentration of the market shares of those insurers, and the changes in market share that occur over time. The most recent iteration of this report, published in May of 2025, concluded that[36]:

- Maryland's PPA insurance market is moderately concentrated; and
- The number of competitors (144 companies with active business in 2024) and a low market share for Maryland Auto (1.6% in 2024) suggest that Maryland's PPA market is competitive, and that private insurers continue to compete for market share by writing individuals with higher risk characteristics.

In recent years, insurance regulators in several states have increased their scrutiny of PPA rate filings through existing review processes. Further, some states have enacted or considered proposed legislation to transition to stricter rate regulatory systems in order to give regulators greater authority to prevent unjustified rate increases or unfair pricing practices before they are implemented. Examples of recent legislative initiatives include the following:

[36] The MIA's *2025 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland* (May 2025) is available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/2025-Report-on-the-Effect-of-Competitive-Rating-on-the-Insurance-Markets-in-MD.pdf.

- 2023 District of Columbia Laws 25-123 (Act 25-331) requires prior approval of any PPA insurance rate change and provides that a rate filing is deemed approved if no determination is rendered within 90 days. It supplants the prior file and use standard.
- 2025 Vermont Laws No. 23 (H. 137) maintains the pre-existing file and use standard, but provides more lead time for regulators to scrutinize and challenge rate filings. It extends the number of days prior to implementation that a PPA insurance rate filing must be submitted from 15 to 30 days.
- Texas H.B. 5519 (2025), which did not pass, would have required prior approval of any PPA insurance rate change of 5% or more. It would have replaced the current file and use standard with a flex rating standard.
- Illinois S.B. 268 (2025-2026), which was pending as of December 2, 2025, would require prior approval of any PPA insurance rate change and provide that a rate filing is deemed disapproved if no determination is rendered within 60 days. This would supplant the current use and file standard.

There is a risk that moving from competitive rating to a stricter rate regulatory system, such as prior approval, could have adverse impacts on market performance. An IRC study of PPA rate filing measures across all 50 states and the District of Columbia concluded that "processes to achieve approved rate filings for personal auto insurance grew more cumbersome countrywide and across regulatory environments from 2010 through 2023." The study further concluded that "these protracted processes are causing more disparity from timely and necessary rate increases by insurance carriers to achieve adequate rates and pushing the industry toward a less competitive landscape." Key findings from the IRC study are as follows:[37]

- Approximately 10,200 PPA rate filings were made each year, from 2010 through 2023, without much variance.
- The average number of days from request for a rate adjustment to approval increased by about 40%.
- The number of filings withdrawn increased by about 40%.
- It has become more common for regulators to approve smaller rate increases than originally requested by insurers, and the gap between filed and approved rates has widened.

[37] *Rate Regulation in Personal Auto Insurance: Comparison of State Systems*, IRC: https://insurance-research.org/auto-injury-claims-trends/rate-regulation-personal-auto-insurance-comparison-state-systems.

- Market concentration (measured by the Herfindahl-Hirschman Index, or HHI) increased by about 9%.
- Filing process measures and market outcomes vary by regulatory systems.

2. OPTIONS FOR LIMITING EXPENSE LOADING

The total premium for an insurance policy consists of the pure premium (the expected cost of claims) and "expense loading" (the amount an insurer adds to the pure premium to cover its operating expenses, administrative costs, and contingencies, including a reasonable profit margin). The primary purpose of expense loading is to ensure that an insurer can cover the costs of running its business, including servicing of policies and claims, while remaining financially stable. At least two states have enacted laws that limit expense loading by prohibiting insurers from considering certain expenses in ratemaking.

California prohibits insurers from including any of the following expense items in ratemaking:[38]

- Political contributions and lobbying;
- Executive compensation that exceeds a maximum reasonable amount that is determined in accordance with formulas set forth in regulation;
- Bad faith judgments and associated defense and cost containment expenses;
- All costs attendant to the unsuccessful defense of discrimination claims;
- Fines and penalties;
- Institutional advertising expenses, which means expenses incurred for advertising that is not aimed at obtaining business for a specific insurer or providing consumers with information pertinent to the decision whether to buy the insurer's product; and
- All payments to affiliates, to the extent that such payments exceed the fair market rate or value of the goods or services in the open market.

Louisiana recently enacted legislation, with an effective date of January 1, 2026, that prohibits an insurer from considering its institutional advertising expenses for the purpose of setting rates.[39] Similar to California, Louisiana defines institutional advertising expenses as "advertising not aimed at obtaining business for a specific insurer nor providing consumers with information pertinent to the decision as to whether to purchase an insurance product."

[38] *See* Cal. Code Regs. tit. 10, § 2644.10.
[39] *See* 2025 La. Sess. Law Serv. Act 85 (H.B. 438).

3. OPTIONS FOR RESTRICTING THE USE OF CERTAIN NON-DRIVING RATING FACTORS

Maryland PPA rating restrictions align with the majority approach. Sections 11-306 and 27-501 of the Insurance Article provide that:

- Rates may not be inadequate (to maintain the insurer's solvency), excessive, or unfairly discriminatory (premium rate differentials cannot be based on something other than actuarial risk); and
- Insurers are prohibited from collecting/using information about the race, creed, color, or national origin of applicants or insureds.

Some states have banned the use of certain non-driving rating factors on the grounds that they may serve as proxies for unfair discrimination (e.g., due to correlation with socioeconomic status or race). Some examples are as follows:

- In California, an insurer is only permitted to use factors mandated or expressly permitted by statute or regulation to rate a PPA policy and must weigh the relative importance of those factors as described in regulation. Mandatory rating factors include: driving safety record, miles driven annually, and years of driving experience. Prohibited rating factors include: gender, age, credit history, education, occupation, employment status, residential status, and insurance history.[40]
- In Hawaii, a PPA insurer may not base any rating standard or rating plan on age, gender, length of driving experience, credit bureau rating, or marital status.[41]
- In Massachusetts, PPA insurance rates may not be based on gender, marital status, age (except discounts for persons who are 65 years or older), occupation, income, education, homeownership, or credit history.[42]
- In Michigan, PPA insurers are limited to using one or more of the rating factors specified by statute and must apply the selected factors on a uniform basis across the state. Insurers are prohibited from basing PPA premium rates on gender, marital status, home ownership, educational level attained, occupation, credit score, or postal zone (through territorial rating is permitted).[43]
- In North Carolina, a rating classification for PPA insurance may not be based upon age or gender.[44]

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[40] *See* Cal. Ins. Code § 1861.02; Cal. Code Regs. tit. 10, § 2632.5 and 2632.8.
[41] *See* Haw. Rev. Stat. Ann. § 431:10C-20.
[42] *See* 211 Mass. Code Regs. 79.04.
[43] *See* Mich. Comp. Laws Ann. § 500.2111.
[44] *See* N.C. Gen. Stat. Ann. § 58-36-10.

- In New York, a PPA insurer may not use occupational status or educational level as rating factors, *unless* the insurer demonstrates to the satisfaction of the Superintendent of Financial Services that the use of these factors does not result in rates that are unfairly discriminatory.[45]

This Report will now provide further background information on two particular non-driving rating factors that have been the subject of recent debate in Maryland: credit history and territory (i.e., geographic location).

a) CREDIT HISTORY

As indicated above, at least four states have altogether banned PPA insurers from using credit history as a rating factor (California, Hawaii, Massachusetts, and Michigan). Several states, including Maryland, limit the ways in which PPA insurers can use credit history in rating. Relevant restrictions and requirements set forth in § 27-501 of the Insurance Article are as follows:

- An insurer may not refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based on credit history.
- An insurer may not require a particular payment plan for a policy based on credit history.
- An insurer that uses credit history in rating a new policy shall inform an applicant it does so at the time of application.
- An insurer shall, on request of the applicant, provide a premium quotation that separately identifies the portion of the premium attributable to the applicant's credit history.
- An insurer may not apply a discount or surcharge of more than 40% based on credit history.
- An insurer may not rate a policy based on the absence of or inability to obtain credit history, the number of credit inquiries, or any credit history factor that is more than five years old.
- An insurer that uses credit history to rate a policy shall review the insured's credit history every two years or upon request by the insured, and adjust the premium rate if the insured qualifies for a *more favorable* credit history rating category.

Examples of ways in which other states restrict the use of credit history in PPA insurance rating differently than Maryland are listed below.

[45] *See* N.Y. Comp. Codes R. & Regs. tit. 11, § 154.6A.

- In Utah, an insurer can only use credit history as the basis for a premium discount.[46]
- In Oregon, if a policy was assigned a higher premium rate due to disputed credit history, the insurer must rerate the policy retroactive to the effective date based on accurate credit history.[47]
- In Connecticut:
    - An insurer with a rating plan that uses credit history must submit to the Commissioner documentation showing how the program impacts consumers in urban versus non-urban territories and of different ages;
    - A credit based rating score cannot be impacted by collection accounts with a medical industry code; and
    - An insurer shall grant a reasonable exception to its credit based rating rules if an applicant's credit history was adversely impacted during the past three years by catastrophic illness/injury, divorce, identity theft, death of a spouse/child/parent, involuntary unemployment lasting three or more months, or a loss rendering their home uninhabitable.[48]

It should be noted that, last year, the Maryland General Assembly enacted the Fair Medical Debt Reporting Act.[49] This law prohibits a consumer reporting agency from maintaining a file or furnishing a consumer report that contains adverse information relating to a consumer's medical debt or any collection action against a consumer for medical debt. PPA insurers that consider credit history when rating a new policy generally obtain the underlying credit history information from reports furnished by consumer reporting agencies. Thus, although PPA insurers are not explicitly prohibited from considering adverse credit history information attributable to medical debt when rating a new policy under current Maryland law, the Fair Medical Debt Reporting Act significantly impedes their ability to do so.

b) TERRITORIAL RATING

An insurer that engages in territorial rating assesses the risk of potential claims and losses based on the physical location where a vehicle is primarily parked overnight and adjusts the location-specific base rate

[46] *See* Utah Code Ann. § 31A-22-320.
[47] *See* Or. Rev. Stat. Ann. § 746.661.
[48] *See* Conn. Gen. Stat. Ann. § 38a-686.
[49] *See* 2025 Maryland Laws Ch. 121 (H.B. 1020).

accordingly. Territorial base rates are higher for locations with higher concentrations of risk factors. For example, territorial base rates tend to be higher in areas with greater traffic density and accident rates due to the increased likelihood of accidents leading to claims and in areas with high rates of vehicle theft due to the increased risk of criminal activity leading to claims. The premium rate assigned to an individual policyholder may be higher or lower than the relevant territorial base rate due to their individual risk factors.

Territories can be expressed in different geographic terms (e.g., ZIP codes or groupings of ZIP codes). The more policyholders an insurer has within a territory, the more data they accumulate on past losses and claims in that territory. Thus, larger insurers tend to use a greater number of smaller territories, whereas smaller insurers tend to use a lesser number of larger territories.

Requirements pertaining to PPA insurers' use of territorial rating under Maryland law are codified at §§ 11-205, 11-216, 11-306, and 11-319 of the Insurance Article. These provisions provide that:

- A rate may not be based wholly or partly on geographic area itself, as opposed to underlying risk considerations, even though expressed in geographic terms; and
- An insurer that uses territory as a factor in establishing automobile insurance rates shall submit a statement to the Commissioner certifying that the territories used by the insurer have been reviewed within the previous three years and use of the territories is actuarially justified.

No state completely bans the use of territorial rating by PPA insurers, but a few limit how the practice can be applied. Examples of such limitations are listed below.

- California law requires that a territory be at least 20 square miles. One reason for mandating larger territories is to broaden the socioeconomic characteristics of individuals within the territories. California law also requires an insurer that uses territorial rating to submit to the regulator a biennial report on its loss experience for each territory, including a breakdown of actual loss experience statistics by ZIP code, for examination to ensure that the territories reflect homogeneity of loss experience. The biennial report must include separate loss data for each type of coverage underwritten, including liability or physical damage coverage. Following examination of the reports, the regulator aggregates and makes available to the public data on territorial loss experience reported by insurers.[50]

- Connecticut law requires a rating plan that includes territorial classifications to assign a weight of 75% to individual territorial loss cost indication and 25% to the statewide average loss cost indication. This weighting requirement is intended to moderate the impact of territorial rating on urban areas. Connecticut law also provides that any change in territorial classifications is subject to prior approval by the regulator.[51]
- Michigan law authorizes an insurer to group automobile insurance risks by territory, but not to establish or maintain a rate or rating classification based on the postal zone (i.e., ZIP code) in which the insured resides.[52]
- New Jersey law requires that territories:
    - Recognize both qualitative similarities and differences in driving environments or mix of driving environments, which may include traffic and population density, severity of loss, and the degree of homogeneity within a territory in terms of driving environments, population, and driver classification;
    - Be comprised of towns or cities which are contiguous;
    - Contain a sufficient number of exposures to result in statistically credible experience and be defined in a manner which minimizes the effect of variability of loss in a territory on a year-to-year basis;
    - Take into account the impact of the overlapping of traffic patterns on exposure to loss;
    - Result in an equitable distribution of exposures among territories throughout the State;
    - Not result in disproportionate differences in territorial relativity factors or territorial base rates between contiguous territories with similar driving environments; and
    - Not result in unfair inter-territorial subsidization among territories with significant differences in driving

[50] *See* Cal. Ins. Code § 11628.
[51] *See* Conn. Gen. Stat. Ann. § 38a-686.
[52] *See* Mich. Comp. Laws Ann. § 500.2111.

environments, population density, traffic density, mix of driver classifications, and degree of severity of loss.[53]

4. STATE-SPONSORED NO-COST AND LOW-COST AUTO INSURANCE PROGRAMS

The workgroup identified and discussed three state-sponsored low-cost or no-cost PPA insurance programs: the Hawaii No-Fault No-Cost Auto Insurance Program, the New Jersey Special Automobile Insurance Policy, and the California Lost Cost Auto Insurance Program. Each of these programs is administered by the state's assigned risk plan, which is composed of all private insurers authorized to write auto insurance in the state, and serviced by AIPSO. AIPSO is a national non-profit organization that provides administrative services for assigned risk plans. For context, Hawaii and New Jersey are among the twelve states with "no-fault" insurance laws that require drivers to purchase personal injury protection ("PIP") coverage.[54] In these states, a driver's policy covers certain expenses arising from bodily injury to or death of the driver or their passenger(s) during a car accident, regardless of who was at fault, up to the PIP coverage limit.

Hawaii has implemented a program that provides free auto insurance to eligible low-income individuals. Generally, only one vehicle per qualifying household may be covered through the program. To qualify for insurance through the program, a person must be a recipient of financial assistance payments or Supplemental Security Income benefits (as confirmed by the Department of Human Services), be the sole registered owner of the vehicle, and possess a valid driver's license or be unable to operate the vehicle due to a permanent disability. A policy through the program satisfies all minimum coverage requirements under Hawaii law (bodily injury coverage of $20,000 per person or $40,000 per accident, property damage coverage of $10,000, and PIP coverage of $10,000).[55]

The New Jersey Special Automobile Insurance Policy ("SAIP") makes limited medical coverage-only auto insurance policies available to drivers enrolled in Federal Medicaid with hospitalization at a cost of $365 a year. Only one vehicle can be covered under a SAIP policy, which does not satisfy all PPA insurance requirements under state law. To be eligible for a SAIP policy, a person must have a valid driver's license and demonstrate their enrollment in Medicaid when the policy is first written and at each renewal. A SAIP policy only covers

[53] *See* N.J. Stat. Ann. § 17:29A-48.
[54] *What States Have No-Fault Insurance?*, Experian (Feb. 2025): https://www.experian.com/blogs/ask-experian/what-states-have-no-fault-insurance/.
[55] *See* Haw. Code R. Tit. 17, Ch. 654 and https://www.aipso.com/Plan-Sites/Hawaii.

the expenses of emergency treatment immediately following an accident and treatment of serious brain and spinal cord injuries up to $250,000, as well as a $10,000 death benefit. A person whose property is damaged due to an accident caused by a driver that only has a SAIP policy would have to file for reimbursement under their own uninsured motorist coverage. The Insurance Commissioner establishes the premium rate for a SAIP policy, which must be sufficient to cover the cost of writing the policy plus a predetermined amount to offset claims paid by the state's Unsatisfied Claim and Judgment Fund.[56]

The California Low Cost Auto ("CLCA") insurance program provides affordable basic liability coverage to low-income individuals with good driving records. All CLCA policies provide bodily injury coverage up to $10,000 per person or $20,000 per accident and property damage coverage up to $3,000 - it is important to note that these limits are lower than minimum liability coverage limits required for non-CLCA policies under California law. Additional optional coverages available through the CLCA program include uninsured motorist-bodily injury coverage up to $10,000 per person or $20,000 per accident and medical payments coverage up to $1,000 per person. An eligible person may insure up to two vehicles through the CLCA program. To qualify for a CLCA policy, a person must be at least 16 years old, have a valid California driver's license, have a good driving record or be a new driver, meet income eligibility guidelines, and own a vehicle valued at $25,000 or less. The CLCA program is self-funded via premiums and electronic transaction surcharges collected from CLCA policyholders. The Department of Insurance is authorized to use up to five cents of a special purpose assessment on each vehicle insured under a policy issued in the state to fund its efforts to notify insurers and members of the public about the existence of the CLCA program.[57]

5. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING OPTIONS TO INCREASE THE AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE IN THE STATE

Workgroup members were unable to reach a consensus on whether legislation establishing a more stringent rate review process in Maryland would positively or negatively impact the affordability of PPA insurance. Some

[56] *See* NJ Rev Stat § 39:6A-3.3; https://www.nj.gov/dobi/division_consumers/insurance/saip.htm; and https://www.aipso.com/Plan-Sites/New-Jersey.

[57] *See* https://www.mylowcostauto.com/; https://www.aipso.com/Plan-Sites/California-Low-Cost; https://www.insurance.ca.gov/0400-news/0102-alerts/2024/California-s-Low-Cost-Auto-Insurance.cfm and https://www.insurance.ca.gov/01-consumers/105-type/95-guides/01-auto/lca/upload/CLCA_2025_Legislative_Report.pdf.

workgroup members would support legislation that transitions Maryland to a prior approval or flex rating system, or that grants the MIA more time to review (and identify/address any concerns with) a filed rate before it takes effect. Other workgroup members would oppose such legislation and maintain that transitioning away from the current competitive rating system would not lower premium rates, but would hamper insurers' ability to implement timely adjustments to premiums rates as market conditions change and ultimately stifle competition. Feedback submitted to the workgroup by the Maryland Association of Mutual Insurance Companies notes that the 1995 law that moved Maryland from prior approval to competitive rating did not limit the MIA's ability to evaluate rates and take action to ensure that they are not excessive, inadequate, or unfairly discriminatory.[58]

Workgroup members were unable to reach a consensus on whether legislative action to prohibit PPA insurers from considering certain operating expenses, administrative costs, or contingencies in ratemaking would have a meaningful impact on the cost of PPA insurance in Maryland. Some workgroup members argue that these expenses can be substantial and contend that it is unfair for Maryland drivers who are legally required to purchase PPA insurance to shoulder these costs, particularly high salaries paid to executives of national insurance companies. Other workgroup members view these expenses as necessary costs of doing business and argue that they ultimately have a negligible impact on premium rates when spread across an insurance company's entire book of business. They stress that consistent legal requirements from state-to-state contain compliance costs and urge against adoption of rating restrictions that are unique or embraced by an extreme minority of states.

The use of credit history in rating PPA insurance policies has been a controversial topic over the past two decades and the workgroup members do not share a unified position on whether the overall impact of this practice does more harm or good for Maryland consumers. Some workgroup members point to research that establishes a strong correlation between lower levels of household income and higher credit scores, arguing that prohibitively high premium quotes due to poor credit history reflect disparate treatment of low and moderate-income drivers by PPA insurers who use credit history as a rating factor.[59] Other

[58] *Comments on Workgroup to Study Private Passenger Automobile Insurance under House Bill 1098*, Maryland Association of Mutual Insurance Companies (Nov. 2025): https://insurance.maryland.gov/Consumer/Documents/agencyhearings/MAMIC-Comments-on-Workgroup-to-Study-Private-Passenger-Automobile-Insurance-under-House-Bill-1098.pdf.

[59] *The Use of Credit Scores by Auto Insurers: Adverse Impacts on Low- and Moderate-Income Drivers, Consumer Federation of America* (Dec. 2013): https://consumerfed.org/pdfs/useofcreditscoresbyautoinsurers_dec2013_cfa.pdf.

workgroup members embrace the view articulated in a letter submitted by the National Association of Mutual Insurance Companies, which states that “[t]he correlation between credit-based information and the risk of loss has been repeatedly validated through actuarial studies and regulatory reviews.”[60] The letter further states that “the use of credit-based scoring enhances fairness by reducing reliance on less accurate factors and helps maintain a competitive marketplace that lowers costs for the majority of policyholders.”[61] The workgroup also considered a report by the Arkansas Department of Insurance which concluded that the use of credit history as a factor in rating PPA insurance policies in the state during 2016 resulted in either a premium discount or had no effect on premium for 76.6% of affected consumers.[62]

Workgroup members did not reach a consensus as to whether legislative action to mitigate the impact of territorial rating on residents of urban areas would enhance fairness in Maryland’s PPA insurance market. Some workgroup members would support such legislation on the grounds that relatively high accident frequency rates in urban areas are, to some degree, attributable to accidents involving commuters from rural and suburban areas. Other workgroup members would oppose such legislation on the grounds that it would be detrimental to the majority of policyholders, who reside outside of urban areas and would be charged higher premium rates to subsidize rates for urban residents with greater territorial loss exposure.

The workgroup recommends further study into whether and how the legislature could design an equitable and sustainable low-cost auto program in Maryland. More specifically, the workgroup recommends further evaluation of:

- Whether the program should be administered by the Industry Automobile Insurance Association or Maryland Auto;
- Whether and how coverage limits for policies offered through the program should be constrained to control program costs;
- Whether the program should be completely self-funded via adequate rates and processing surcharges paid by its policyholders, or if a supplemental funding source should be designated; and

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[60] *Re: November 18th Private Passenger Automobile Insurance Affordability Workgroup Meeting*, National Association of Mutual Insurance Companies (Nov. 2025): https://insurance.maryland.gov/Consumer/Documents/agencyhearings/NAMIC-CommentLetter-Private-Passenger-Automobile-Insurance-Affordability-Workgroup-Meeting-11182025.pdf.

[61] *Id*.

[62] *Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant To Ark. Code Ann. § 23-67-415*, Arkansas Insurance Department (Jun. 2017): https://insurance.maryland.gov/Consumer/Documents/agencyhearings/Arkansas-Legislative-Report-Use-and-Impact-of-Credit-2017.pdf.

- Which eligibility requirements individuals should meet to qualify for coverage through the program (e.g., household income below a certain threshold, good driving record or new driver, vehicle valued below a certain amount, etc.).

B. POLICY OPTIONS TO INCREASE TRANSPARENCY SURROUNDING PRIVATE PASSENGER AUTOMOBILE INSURANCE PREMIUMS

1. REQUIREMENTS FOR NOTICES OF PREMIUM RATE INCREASES UNDER CURRENT MARYLAND LAW

Maryland law requires that a PPA insurer provide advance notice to a policyholder of the premium rate that will be charged for their renewal policy. An insurer is not required to provide a policyholder with an explanation of the reasons for a general (i.e., across-the-board) rate increase. However, an insurer is required to provide a policyholder with an explanation of the reasons for a premium increase based on factors that specifically pertain to the individual policyholder. A policyholder has the right to protest a premium increase they believe to be incorrect, and in the case of a premium increase of more than 15%, request a hearing to challenge the basis of the premium increase. A more detailed overview of the relevant provisions of the Insurance Article is provided below.

- Section 27-610(a)(2) requires that, unless an insurer provides notice of its intention not to renew a PPA policy, the insurer must notify the policyholder of the renewal premium at least 45 days before it becomes effective.
- Section 27-614(c) requires that, at least 45 days before increasing a policy premium via a surcharge, removal/reduction of a discount, or retiering/reclassification, the insurer provide the policyholder with an explanatory notice that:
  - Is on a form approved by the Commissioner;
  - States in clear and specific terms the basis for the premium increase; and
  - Explains the policyholder's right to protest the premium increase and, in the case of a premium increase of more than 15%, request a hearing before the Commissioner.
- Section 27-614(d) provides that the Commissioner shall disallow a premium increase that is protested or challenged in a hearing if the Commissioner determines that the premium increase does not comport with the insurer's filed rating plan and applicable requirements of the Insurance Article.

MIA Bulletin 24-26 clarifies certain steps that a PPA insurer must take to comply with notice requirements under § 27-614 of the Insurance Article when increasing the premium for a policy based on factors measured through a telematics program.[63] Specifically, the bulletin provides that notice of a premium increase based on information about an insured's driving behaviors collected through a telematics program:

- Must state the percentage of the premium increase that is attributable to the telematics program;
- Must identify each behavior measured through the program and included in the calculation of the increase;
- Must specify, if applicable, that the increase was due to insufficient driving data or disenrollment; and
- May not use vague phrases like "may have included," or "based on factors such as."

2. INFORMATIONAL RESOURCES CONCERNING PREMIUM RATES CURRENTLY AVAILABLE TO MARYLAND CONSUMERS

The MIA's *Consumer Guide to Auto Insurance* provides information about how PPA insurers rate policies to aid consumers in effective comparison shopping.[64] The guide explains that when evaluating an application for a PPA insurance policy, an insurer gathers information about individual risk characteristics that are predictive of the likelihood that the applicant will be in an accident or file a claim. The insurer then evaluates those risk characteristics to determine whether their underwriting guidelines permit them to write a policy for the applicant and, if so, to assign a premium rate consistent with the rating plan the insurer has filed with the MIA.

The MIA's *Consumer Guide to Auto Insurance* describes individual risk characteristics that an insurer may consider when rating a PPA policy, including the applicant's driving record, geographical area, gender, age, marital status, prior insurance coverage, vehicle (age, make, and model), and credit history. The guide explains that when assessing an applicant's driving record, an insurer assigns points for moving violations and accidents and uses the applicant's total score to place the applicant in a certain risk category, pursuant to the insurer's underwriting guidelines or filed rating plan. The guide also explains that bankruptcies, late payments, and the number of credit cards an applicant has may result in a higher premium quote if the insurer's rating plan designates credit history as a factor used to rate a new policy. Finally, the guide describes how

[63] MIA Bulletin 24-26 is available at: https://insurance.maryland.gov/Insurer/Documents/bulletins/24-26-Notice-Requirements-for-Premium-Increases-Based-on-Factors-Measured-through-a-Telematics-Program.pdf.
[64] The MIA's *Consumer Guide to Auto Insurance* is available at: https://insurance.maryland.gov/Consumer/Documents/publications/autoinsuranceguide.pdf .

Maryland law restricts the ways in which PPA insurers can use credit history in rating and provides a basic overview of the laws governing premium rate increases.

The MIA's *Comparison Guide to Automobile Insurance Rates* provides additional information about rating factors, as well as an overview of the various types of mandatory and optional PPA insurance coverages available to consumers.[65] The guide is updated every six months. It presents scenarios based on risk characteristics of hypothetical consumers, and lists premium rates that licensed private insurers, as well as the Maryland Auto, would charge such consumers. The guide also identifies which insurers use credit history as a rating factor, and indicates that several private insurers and Maryland Auto do not. The MIA is currently collecting premium quotes from insurers that will be included in the next edition of the guide, which should be published in February of 2026. Rating scenarios in the forthcoming edition will be updated to include newer vehicle models and electric vehicles.

3. POTENTIAL ADDITIONAL DISCLOSURE REQUIREMENTS PERTAINING TO PREMIUM RATE INCREASES

The NAIC has established a Transparency and Readability of Consumer Information Working Group. One of the working group's charges is to develop voluntary regulatory guidance pertaining to disclosures of premium increases for property and casualty insurance products. Pursuant to this charge, the working group published a *Premium Increase Transparency Disclosure Notice Guidance for States* earlier this year.[66] The guidance document recommends that states consider adopting the following disclosure requirements that are not codified in Maryland law:

- Require that a PPA insurer provide a premium change notice, including a reasonable explanation of the causes of a premium increase, in advance of any premium increase (including a general premium increase) of 10% or more; and
- Require that a premium change notice specify the dollar impact of each major factor contributing to the premium increase (under Maryland law, notice of a premium increase based on individualized factors must specify the amount of the increase attributable to a telematics program and

[65] The MIA's *Comparison Guide to Automobile Insurance Rates* (Aug. 2025) is available at: https://insurance.maryland.gov/Consumer/Documents/publicnew/AutoRateGuide.pdf.

[66] The NAIC Transparency and Readability of Consumer Information Working Group's *Premium Increase Transparency Disclosure Notice Guidance for States* is available at: https://content.naic.org/sites/default/files/inline-files/Premium%20Increase%20Transparency%20Disclosure%20Notice%20Guidance%20for%20States.pdf.

provide a specific description of other contributing factors, but the dollar impact of all such factors does not need to be specified).

4. CONSIDERATIONS RELATING TO TELEMATICS PROGRAMS

Telematics programs (referred to as "programs that measure the operation of insured vehicles" in the Insurance Article), enable insurers to analyze risk profiles and tailor rates based on individual driving habits. Workgroup members agree that consumers on the private market should continue to have the option to voluntarily enroll in these programs, which disincentivize unsafe driving behaviors (e.g., cell phone use while driving and speeding) and may result in lower premium rates for individuals who demonstrate low-risk driving habits.

Data collected by the MIA indicates that many consumers who voluntarily enroll in a telematics program do not fully understand which types of data are collected through the program and how their insurer considers that data in underwriting and rating. A MIA survey of the top 18 insurers representing 80.9% of Maryland's auto insurance market indicated that, in 2023, there was roughly only a 31.16% chance that enrollment in a telematics program would result in a premium decrease.[67] Between January 1, 2024 and June 30, 2025, the MIA received 811 complaints from consumers concerning rate increases based on driving behaviors measured through telematics systems, accounting for 12.4% of all PPA related consumer complaints received during that period. Premium rate increases that were the subject of these complaints ranged from 0.4% to 42.5%. A wide range of driving behaviors measured through telematics systems, including the time at which a policyholder drives to work (e.g., 3:15am) and the fact that a policyholder encounters stop-and-go traffic during their regular commute, were cited as giving rise to such rate increases.

5. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING POLICY OPTIONS TO INCREASE TRANSPARENCY SURROUNDING PRIVATE PASSENGER AUTOMOBILE INSURANCE PREMIUMS

The workgroup members were unable to reach a consensus on whether legislative action should be taken to implement the enhanced notice of premium increase requirements suggested by the NAIC. Some workgroup members would support such legislation on the grounds that it would enhance transparency surrounding premium rate increases, including general rate increases. Other

[67] *Telematics Survey Report - Auto Insurance Market in Maryland*, MIA (Jul. 2025): https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Telematics-Survey-Report-2025.pdf.

workgroup members would oppose such legislation on the grounds that it would impose additional operational costs on insurers and be of little practical value to consumers who are overwhelmed or confused by voluminous information about factors impacting general premium rates.

The workgroup members were unable to agree on whether legislative action should be taken to establish disclosure requirements and appeals processes for telematics programs. Some workgroup members would support legislation requiring a PPA insurer that utilizes a telematics program: (1) disclose information to applicants and policyholders concerning the types of data collected through the program and how that data may be considered in rating and underwriting decisions; and (2) implement a process by which enrollees can contest the accuracy of data collected through the program. These workgroup members contend that mandatory disclosures are necessary to ensure that consent to participate in a telematics program is meaningful, and that a transparent appeals process is needed so that consumers can assess and contest premium increases based on potentially erroneous telematics readings. Other workgroup members would oppose such legislation, stressing the voluntary nature of telematics programs and arguing that insurers would have to pass additional costs incurred to comply with such legislation onto enrollees.

VI. METHODOLOGIES BY WHICH AFFORDABILITY CAN BE CONSIDERED IN RATEMAKING

A. BACKGROUND INFORMATION CONCERNING MARYLAND AUTO'S AFFORDABILITY INDEX

The workgroup was tasked with considering methodologies by which affordability can be considered in establishing PPA insurance rates c*onsistent with rate making principles codified in the Insurance Article*. The workgroup understands that the underlying goal of this charge is to identify potential alternatives to the "Affordability Index" that Maryland Auto devised to cap liability base rates (for minimum legally required coverage) at 3.3% of the median household income in ZIP codes with territorial base rates above this threshold. The differing opinions that the MIA and Maryland Auto, respectively, maintain as to the legality of the Affordability Index is well documented in prior legislative reports.[68] Without restating everything that has already been reported on, some basic background information is provided below.

Maryland Auto is a statutorily created entity, governed by Title 20 of the Insurance Article, intended to act as the State's auto insurer of last resort by making coverage available for high-risk drivers who are unable to secure coverage through the private market. If Maryland Auto's surplus level falls below a certain amount determined pursuant to a statutory calculation, it issues an assessment against the private market, the cost of which is typically passed onto private insurers' policyholders.[69] 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, partly - if not 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.[70] It is important to note that, as a general matter, inadequate rates afforded to some policyholders are ultimately subsidized by others.

In December of 2024, the MIA issued an order requiring Maryland Auto to phase out its use of the Affordability Index. The MIA determined that the Affordability Index violates the following rating principles codified in Title 11, Subtitles 2 and 3 of the Insurance Article, for which there is no statutory language exempting Maryland Auto.

- §§ 11-205 and 11-306 provide that rates may not be 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).
- Rates may not be based wholly or partly on geographic area itself, as opposed to underlying risk considerations, even though expressed in geographic terms. Rather, pursuant to § 11-319, the use of territories must be actuarially justified.

The MIA's December 2024 order, together with an amendment to the order, which the MIA issued at the request of Maryland Auto in March of 2025:

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[68] The *2024 Joint Chairmen's Report on 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; and the *2025 Joint Chairmen's Report on Rate Assignment by ZIP Code* is available at: https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Report-on-Rate-Assignment-by-ZIP-Code-2025.pdf.

[69] The need for and amount of a Maryland Auto assessment is determined pursuant to § 20-404. Pursuant to § 20-406, a private insurer may 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.

[70] 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.

- Stated that the rates proposed under a Maryland Auto rate filing with an effective date of January 24, 2025 were inadequate and, with respect to the Affordability Index, unfairly discriminatory;
- Indicated that, despite the MIA's concerns with the aforementioned rate filing, it was approved for implementation in order to enable Maryland Auto to increase its rates somewhat and mitigate its operating losses (the basis for the 2025 assessment against the private market);
- Ordered Maryland Auto to file new proposed rates with an expected implementation date of August 31, 2025;
- Ordered Maryland Auto to submit a plan to gradually eliminate the Affordability Index by March 1, 2026; and
- Required that as of December 31, 2027 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.

During the course of the workgroup study, Maryland Auto presented two options for reducing rate shock in affected ZIP codes as it phases out its Affordability Index. The first option presented by Maryland Auto, which is consistent with rate making principles codified in the Insurance Article, was to adjust the length of Maryland Auto policy terms from twelve to six months. The second option presented by Maryland Auto, which is not consistent with ratemaking principles codified in the Insurance Article, was to establish an "economic relief credit" program to subsidize premium rates for policyholders verified as having income levels below a certain threshold.

B. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING ALTERNATIVES TO MARYLAND AUTO'S AFFORDABILITY INDEX

The workgroup endorses Maryland Auto's suggestion to adjust the length of Maryland Auto policy terms from twelve to six months. Maryland Auto indicates that such action will lower down payments due from its policyholders, encourage participation in the voluntary market (by encouraging more frequent comparison shopping), and hasten its progress towards achieving rate adequacy by enabling it to realize rate adjustments in half the time. This proposal is consistent with rate making principles codified in the Insurance Article, and could be implemented administratively (without legislative action). The workgroup further recommends that Maryland Auto monitor and report to the MIA on the effects of changing the length of its policy terms over the two years immediately following implementation of the change.

Maryland Auto's second suggestion, the establishment of an "economic relief credit" program, was presented as a means of achieving the same outcome as Maryland Auto's Affordability Index, but only for policyholders who meet individualized income eligibility requirements. This proposal is not consistent with ratemaking principles codified in the Insurance Article, and would require legislative action to implement.

Under the proposed program, an individual would be eligible for the economic relief credit if they are a current recipient of public assistance from a program that participates in the Maryland Benefits One Application (e.g., Medicaid, Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, or Women, Infants, Children programming).[71] Maryland Auto further suggested that an individual who is not currently receiving such public assistance may qualify for the economic relief credit if they submit proof of or certification that their annual premium rate is equal to or greater than 3.3% of their annual household income.

The workgroup recommends further study into whether and how the legislature could design an economic relief credit program to reduce the cost of PPA insurance for low-income Maryland consumers. The workgroup thinks it would make sense for the feasibility and mechanics of an economic relief credit program to be examined as part of the low-cost auto program study recommended in Section V.A.5 of this Report. In regards to the economic relief credit program, the workgroup specifically recommends further evaluation of:

- How the program would be funded (e.g., increased rates for non-qualifying policyholders, assessments on the private market, a new vehicle registration surcharge, etc.); and
- Whether the economic relief credit could be applied towards the premium for a PPA policy purchased through the private market, as opposed to limiting the program to Maryland Auto.

VII. THE FINANCIAL STATUS OF PRIVATE PASSENGER AUTOMOBILE INSURERS IN THE STATE AND OPTIONS TO ADDRESS EXCESS PROFITS

A. OVERVIEW OF THE FINANCIAL STATUS OF PRIVATE PASSENGER AUTOMOBILE INSURERS IN THE STATE

Each authorized insurer is required to file with the MIA and the NAIC, on an annual basis, a complete statement of its financial condition, transactions, and affairs for the immediately preceding calendar year (the "Annual Statement").[72] The Annual Statement is submitted on a form developed by the NAIC and prepared in accordance with instructions published by the NAIC.[73] The purpose of the Annual Statement is to provide transparency surrounding insurers' financial performance and compliance with relevant laws and regulations. Among other things, the Annual Statement includes detailed financial data on insurers' revenue (earned premiums, investment earnings), expenses (claims, underwriting costs), assets, and liabilities. The visual and narrative

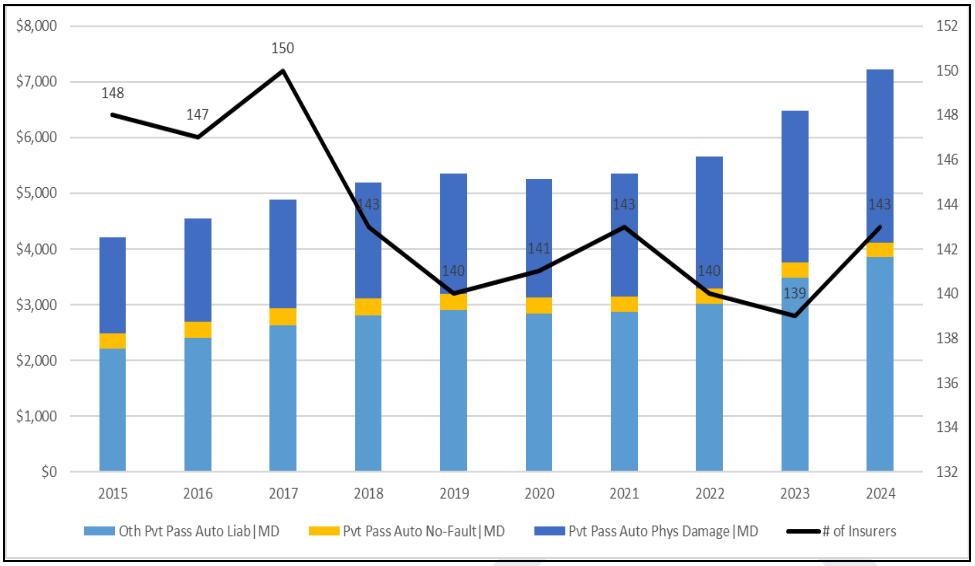
[71] The Maryland Benefits One Application can be accessed at: https://benefits.maryland.gov/home/#/. A press release concerning the application is available at: https://health.maryland.gov/newsroom/Pages/Governor-Moore-Announces-Streamlined-Benefits-Access-for-Marylanders-Through-Maryland-Benefits-One-Application.aspx.
[72] *See* Md. Code Ann., Ins. § 4-116.
[73] Updated versions of Annual Statement forms and instructions are available through the NAIC Financial Data Repository at: https://content.naic.org/industry_financial_filing.htm.

summations of aggregate financial performance by PPA insurers that follow are based on information reported by insurers in Annual Statement filings for Calendar Years 2015 - 2024.

Underwriting profit is the profit that an insurance company generates from its core business of issuing policies and does not include investment income. The Combined Ratio is the key measure of an insurer's underwriting profitability, which is calculated by adding the Loss and Loss Adjustment Expense Ratio to the Expense Ratio. A Combined Ratio under 100% indicates an underwriting profit, whereas a combined ratio over 100% indicates an underwriting loss (e.g., a Combined Ratio of 105% means the insurer loses $0.05 for every $1.00 of premium collected). The components of the Combined Ratio are as follows:

- Loss is the financial obligation the insurer expects to pay for a claim.
- Loss Adjustment Expense ("LAE") is the cost to investigate, manage, and settle a claim. LAE is separate from the claim payment. LAE consists of:
    - Defense and Cost Containment ("DCC") expenses, which include legal and other expenses an insurer incurs to investigate, defend, and litigate a claim; and
    - Adjusting and Other ("AO") expenses, which include general overhead expenses incurred in claims settlement.
- Loss Ratio = (Loss + LAE) ÷ Premium Earned
- Expense Ratio = Administrative Expenses ÷ Premium Written
    - Administrative expenses include sales and operating expenses.

The chart below shows aggregate PPA premium by line of business, as well as the number of active PPA insurers, in Maryland between 2015 and 2024. It shows that 143 insurance companies wrote PPA premiums in Maryland during 2024, reflecting an increase over the total number of companies in 2023. The chart also depicts an upward trend in total combined PPA direct written premium in Maryland from $4.2 billion in 2015 to $7.2 billion in 2024. "Direct written premium" is the amount of premium an insurance company collects from policyholders before it accounts for any premiums paid to reinsurers.



The table below summarizes the *nationwide* financial performance of PPA insurers, based on all lines of business net of reinsurance, between 2015 and 2024. The table indicates that the first underwriting gain in four years occurred in 2024. It shows that premiums earned increased and the loss ratio decreased to 73.8% in 2024. It also shows that investment gains were required to offset underwriting losses in 2016, 2017, 2021, and 2023, and that investment gains were not sufficient to offset significant underwriting losses in 2022. Finally, it shows that dividends paid to policyholders was higher in 2020 than in the other years. This may be due in part to premium credits and refunds that state insurance regulators mandated or recommended auto insurers to issue, commensurate with reduced loss exposure due to the drastic decrease in miles driven at the height of the COVID–19 pandemic.[74] While some insurers may have reported COVID-19 credits and refunds on auto policies as dividends to policyholders, others may have reported them as a reduction in premiums revenue or an expense netted within the total amounts reported in the premium or expense categories.

[74] *See* Bulletin 20-12, Bulletin 20-38, and Bulletin 21-01 issued by the MIA at: https://insurance.maryland.gov/pages/newscenter/propertycasualtybulletins.aspx.

For the year ended December 31,	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Results (in millions, except for percent)										
Net Premiums Written	$ 241,122	$ 250,031	$ 257,203	$ 276,946	$ 284,518	$ 288,453	$ 304,143	$ 331,143	$ 373,561	$ 420,578
Net Premium Earned	237,248	248,037	255,167	272,345	280,747	285,326	296,321	320,217	356,933	407,284
Net Loss & LAE Incurred	170,632	188,827	195,486	196,146	203,485	198,220	223,460	263,789	290,056	300,673
Administrative Expense	64,911	65,458	65,331	69,955	71,470	74,386	75,950	78,957	84,974	94,745
Underwriting Gain (Loss)	4,206	(6,248)	(5,650)	6,245	5,793	12,720	(3,089)	(22,529)	(18,098)	11,866
Net Loss Ratio	71.9%	76.1%	76.6%	72.0%	72.5%	69.5%	75.4%	82.4%	81.3%	73.8%
Expense Ratio	26.9%	26.2%	25.4%	25.3%	25.1%	25.8%	25.0%	23.8%	22.7%	22.5%
Combined Ratio	**98.8%**	**102.3%**	**102.0%**	**97.3%**	**97.6%**	**95.3%**	**100.4%**	**106.2%**	**104.0%**	**96.4%**
Net Investment Gain (Loss)	23,062	20,733	29,629	26,972	22,213	20,959	27,814	21,924	28,110	35,438
Other Income (Expense)	510	700	1,163	603	1,216	788	1,194	869	506	948
Dividends Paid to Policyholders	1,473	1,258	1,373	1,516	2,082	5,102	2,026	1,485	1,512	1,891
Federal Income Tax Exp (benefit)	2,193	869	(641)	3,147	3,275	4,177	1,669	434	1,841	6,502
Net Income	$ 21,289	$ 12,634	$ 23,761	$ 28,860	$ 23,566	$ 25,298	$ 21,955	$ (572)	$ 7,406	$ 40,132

Excludes Aggregate Write-in for Underwriting Deductions and Aggregate Write-in for Other Income

The table below summarizes underwriting results reported by PPA insurers in *Maryland-only* for PPA lines of business between 2015 and 2024. The table shows that PPA insurers reported an underwriting loss in 2016 and 2022, and very modest underwriting profits in most of the other years presented. A low Combined Ratio of 78.3% resulted in a 22.7% underwriting profit in 2020, which is an anomaly attributable to the sharp decline in vehicle use at the height of the COVID-19 pandemic. There was also a relatively low Combined Ratio of 89% in 2024, resulting in an 11% underwriting profit, which is attributable to steep rate increases that insurers effectuated in 2023 and 2024 following poor underwriting results in 2022 (106.1% Combined Ratio). Loss and LAE ratio results demonstrate that losses, rather than expenses, was the primary determinant of underwriting profitability in the years presented. Finally, the table shows that dividends paid to policyholders (which is not included in underwriting results) were significantly higher in 2020 than the other years presented. As noted above, some insurers may have reported COVID-19 credits and refunds on auto policies as dividends to policyholders, whereas others may have reported them as a reduction in premiums revenue or an expense netted within the total amounts reported in the premium or expense categories.

For the year ended December 31,	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Results (in millions, except for percent)										
PPA Prem Earned - MD	$ 4,140	$ 4,441	$ 4,765	$ 5,117	$ 5,315	$ 5,284	$ 5,334	$ 5,512	$ 6,221	$ 7,059
PPA Losses Incurred - MD	2,956	3,248	3,316	3,400	3,515	2,753	3,511	4,479	4,642	4,552
PPA Loss Adj Expense (LAE) Incurred - MD	71	64	72	72	88	71	73	96	97	95
Administrative Expense - MD	1,102	1,149	1,171	1,271	1,288	1,308	1,272	1,305	1,463	1,657
PPA UW Gain(Loss) - MD	$ 10	$ (21)	$ 207	$ 374	$ 424	$ 1,152	$ 478	$ (367)	$ 18	$ 755
PPA Direct Loss and LAE Ratio - MD	73.1%	74.6%	71.1%	67.9%	67.8%	53.4%	67.2%	83.0%	76.2%	65.8%
Expense Ratio - MD	26.2%	25.3%	24.0%	24.5%	24.1%	24.9%	23.8%	23.1%	22.6%	23.0%
PPA Combined Ratio - MD	**99.3%**	**99.9%**	**95.1%**	**92.3%**	**91.8%**	**78.3%**	**91.0%**	**106.1%**	**98.8%**	**88.8%**
Dividends Paid to Policyholders -MD	$ 22	$ 18	$ 20	$ 25	$ 38	$ 139	$ 28	$ 24	$ 21	$ 32

In sum, the financial data presented above indicates that, over the decade evaluated, PPA insurers earned very modest underwriting profits in Maryland and nationally.

B. CURRENT LAW AND RECENT LEGISLATIVE INITIATIVE IN MARYLAND RELATING TO EXCESS PROFITS BY PPA INSURERS

The MIA enforces laws that establish minimum surplus requirements for property and casualty (P&C) insurers, including PPA insurers. However, these insurers have discretion under current law as to how much additional surplus they wish to carry. One reason that an insurer may build additional surplus is to ensure its ability to pay out claims without risking its financial stability if it experiences significant future losses or a catastrophic event.

A bill introduced during the 2025 legislative session (H.B. 1159) proposed a uniform approach to determining the realization of and requiring the return of excess profits by insurers writing any line of P&C insurance. It would determine excess profits based on an insurer's premium revenue and incurred claim costs in a single year, without consideration of the insurer's overall financial condition or the extent to which gains in one year may have been offset by losses in a preceding or subsequent year. More specifically, **H.B. 1159 would have:**

- **Defined a P&C insurer's loss ratio as Incurred Claims ÷ Premium Revenue;**
- **Established a minimum acceptable loss ratio of 85% for a P&C insurer;**
- Required a P&C insurer to issue rebates to its policyholders if its loss ratio for the reporting year is less than 85%; and
- Specified that the amount of the rebate due to an insured equals (85% - Actual Loss Ratio) x (Total Premium Revenue Received from the Insured - Taxes, Licensing Fees, Regulatory Fees, Payments for Risk Adjustment, and Payments for Reinsurance).

The MIA submitted a letter of information regarding H.B. 1159 to the House Economic Matters Committee ahead of its hearing on the bill.[75] The letter of information relayed the following:

- Some P&C insurance policies (e.g., workers compensation policies) have a "long tail," meaning that claims can be made on the policy for many years. Long-tail insurers tend to have a higher surplus compared to other types of P&C insurers because it is more difficult to accurately estimate potential losses for long-tail lines of business, resulting in greater variability of losses.
- Certain lines of P&C insurance are less profitable than others.
- The bill would make no exception for insurers that are in a hazardous financial condition or have suffered significant losses.
- The bill may have adverse impacts on the net worth of P&C insurers and limit P&C insurers' ability to pay dividends to shareholders (or to policyholders, in the case of mutual insurance companies).

[75] The MIA's letter of information regarding HB 1159 (2025) is available at: https://mgaleg.maryland.gov/cmte_testimony/2025/ecm/1mYgncH989dkG0E_5YMR-tj4bCvZbsmsx.pdf.

Although H.B. 1159 was not enacted, the General Assembly acknowledged that there may be benefit to targeted evaluation of some concerns that the bill sought to address. Thus, the legislation that established this workgroup (H.B. 1098) included a charge that the workgroup study the current financial status of private passenger automobile insurers in the State and potential options to address excess profits realized by insurers in this particular line of P&C insurance.

C. EXCESS PROFITS LAWS ADOPTED BY OTHER STATES

Florida law pertaining to excess profits provides the following:[76]

- Each automobile insurer group shall file, prior to July 1 of each year on forms prescribed by the regulator, the following data for Florida PPA business:
  - Calendar-year total limits earned premium;
  - Accident-year incurred losses and loss adjustment expenses;
  - Administrative and selling expenses incurred in Florida or allocated to Florida for the calendar year; and
  - Policyholder dividends incurred during the applicable calendar year.
- Each insurer group's underwriting gain or loss for each calendar-accident year shall be computed by subtracting from the calendar-year earned premium the sum of:
  - The accident-year incurred losses and loss adjustment expenses as of March 31 of the following year, developed to an ultimate basis; plus
  - The administrative and selling expenses incurred in the calendar year; plus
  - Policyholder dividends applicable to the calendar year.
- **Excessive profit has been realized if there has been an underwriting gain for the three most recent calendar-accident years combined, which is greater than the anticipated underwriting profit plus 5% of earned premiums for those calendar-accident years.**
- If the insurer group has realized an excessive profit, the regulator shall order a return of the excessive amounts after affording the insurer group an opportunity for a hearing. **Such excessive amounts shall be refunded in all instances, unless the insurer group affirmatively demonstrates to the regulator that the refund of the excessive amounts will render a member of the insurer group financially impaired or will render it insolvent under the provisions of the Florida Insurance Code.**

[76] *See* Fla. Stat. Ann. § 627.066.

- Any excess profit of an insurance company offering motor vehicle insurance shall be returned to policyholders in the form of:
    - A cash refund within 60 days of entry of a final order indicating that excessive profits were realized; or
    - A credit towards renewal policies applied to policy renewal premium notices forwarded to insureds more than 60 calendar days after entry of a final order indicating that excessive profits were realized.

New Jersey laws and regulations pertaining to excess profits provide the following:

- Each insurer shall file with the commissioner, on or before July 1 of each year, a profits report with respect to its New Jersey PPA business. Each insurance holding company system shall file a separate combined profits report for all insurers in its system. A profits report shall contain the information and calculations set forth in statute, in a manner prescribed by the commissioner via regulation.[77]
- The excess profit report shall contain the following information for the 9 most recent calendar-accident years:[78]
    - Paid, unpaid and incurred loss;
    - Case incurred loss developed to an ultimate basis;
    - Paid, unpaid and incurred ALAE (allocated loss adjustment expense);
    - Case incurred ALAE developed to an ultimate basis;
    - AIRE (Automobile Insurance Risk Exchange) Allocation and investment income received;
    - AIRE Allocation and investment income developed to an ultimate basis;
    - AIRE Assessment; and
    - AIRE Assessment developed to an ultimate basis.
- The excess profit report shall include a calculation of each of the following items:[79]
    - Underwriting income, actuarial gain, and actual investment income for each of the seven calendar-accident years immediately preceding the date of the profit report;

[77] *See* N.J. Stat. Ann. § 17:29A-5.7 and N.J. Admin. Code 11:3-20.
[78] *Id*.
[79] *Id*.

- Development adjustment for the 11th through the 8th calendar-accident years immediately preceding the due date of the profit report;
- Monies spent and monies encumbered to fund reinvestments by the insurer in the New Jersey private passenger automobile insurance market; and
- Total actuarial gain and excess profit.

- **The existence of an excess profit shall be determined based upon the prescribed calculations for the seven calendar-accident years immediately preceding the date the profits report is due. An excess profit shall be deemed to exist when an insurer's total actuarial gain for all PPA coverages combined exceeds 2.5% of earned premium, or 3.85% on a pre-tax basis, using the Federal corporate tax rate of 35%.**[80]
- **If the commissioner finds that an insurer has excess profits, the insurer shall establish, subject to the approval of the commissioner, a fair, practicable, and nondiscriminatory plan for the refund or credit of the excess profits to such group or groups of policyholders as the commissioner may determine to be reasonable in consideration of the insurer's financial and business circumstances.**[81]
- In the event an excess profit is returned by an insurer and subsequent development demonstrates that an excess profit did not exist or was overstated, an "excess profit carry forward" in the amount of the excess profit refunded or the amount overstated, whichever is less, shall be established. This "excess profit carry forward" shall be applied by such insurer as a credit against future determinations of excess profits until such credit is exhausted or the expiration of a 15-year period from the date such carry forward was established, whichever occurs first.[82]

New York's excess profits laws measure a motor vehicle insurer's profitability in the state relative to its net worth, averaged over a six-year period. This approach considers all sources of the insurer's income, including capital gains, investment income, and underwriting income. A base of several years is used to minimize volatility in the results. More specifically, New York laws and regulations provide:[83]

- **Excess profits is the amount by which the six-year average of an insurer's annual rates of return on net worth exceeds 21%.** The

[80] *See* N.J. Stat. Ann. § 17:29A-5.8 and N.J. Admin. Code § 11:3-20.7.
[81] *See* N.J. Stat. Ann. § 17:29A-5.12.
[82] *See* N.J. Stat. Ann. § 17:29A-5.10.
[83] *See* N.Y. Ins. Law § 2329 and N.Y. Comp. Codes R. & Regs. tit. 11, §§ 166-1.1 - 166-1.7.

Department of Financial Services primarily verifies excess profits by reviewing insurers' financial statements and rate filings. It may also conduct examinations and require insurers to file additional information.

- **The Department of Financial Services determines, on an annual basis, the amount of excess profits that an insurer (or group of insurers) is required to return to its New York policyholders as follows:**
  - **The amount of excess profits is divided by the average country-wide earned premium-to-net worth ratio of the six-year period, thus stating the excess profit as a percentage of premiums.**
  - **This percentage is then multiplied by the six-year total direct earned premiums for New York motor vehicle insurance.**
- Within 90 days of notice from the Insurance Department of the amount of excess profit to be returned, an insurer shall allocate the amount among its New York insureds of record on the date of distribution, in accordance with a fair, practicable, and nondiscriminatory plan for refunds or credits.

South Carolina's laws and regulations pertaining to excess profits provide the following:

- The regulator may require insurers licensed to write property or casualty insurance in the State to:[84]
  - Report loss and expense experience and other data necessary to determine whether rates are excessive; and
  - Submit, as a supplement to the annual statement, a report showing direct writings in the State and the U.S.
- **Excessive or unreasonable profits are aggregate operating profits in excess of either:[85]**
  - **15% of earned premiums over a five-year period; or**
  - **25% of the average policyholder surplus over a five-year period.**
- **If annual statements filed by an insurer during the preceding five years show an aggregate operating profit in excess of a reasonable amount from property, casualty, surety, marine, title, or allied lines of business in the State, the regulator may:[86]**
  - **Order a general reduction in rates to reduce the operating profit to a reasonable amount; and/or**

[84] *See* S.C. Code Ann. § 38-13-300.
[85] *See* S.C. Code Ann. Regs. 69-45.
[86] *See* S.C. Code Ann. § 38-73-1100.

- **Order a pro rata refund of excessive or unreasonable profits realized by the insurer, plus interest, to policyholders in the form of a cash refund, a credit toward future premiums.**

Of the four states discussed above, the workgroup was only able to confirm that Florida was prompted to enforce its excess profits laws within the past decade. Several auto insurers recently realized underwriting gains in Florida that triggered operation of the state's excess profit laws. Florida officials largely attribute these underwriting gains to the success of tort reform measures discussed in Section I.V.B of this Report. A press release dated October 22, 2025 quotes Florida Governor Ron DeSantis as saying: "This year, Florida's top five auto insurers are averaging over a 6% rate reduction, and we've secured nearly $1 billion in credits for Progressive auto policyholders – and the other carriers are expected to follow suit soon."[87] A press release dated November 18, 2024 quotes Florida Insurance Commissioner Mike Yaworsky as saying: "Ongoing discussions with top auto insurers have resulted in several [Office of Insurance Regulation] approvals of rate reductions and rebates for policyholders."[88]

D. WORKGROUP DISCUSSION AND RECOMMENDATIONS CONCERNING EXCESS PROFITS BY PPA INSURERS IN MARYLAND

TBD at December 4th meeting: Does the workgroup want to recommend that Maryland adopt a law to address excess profits? Or, does the workgroup think that underwriting profitability trends over the past decade indicate there is not a pressing need for this type of legislation?

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[87] *Governor Ron DeSantis Announces $1 Billion in Auto Insurance Refunds as a Result of Florida's Improving Insurance Market, Executive Office of Governor Ron DeSantis* (Oct. 2025): https://www.flgov.com/eog/news/press/2025/governor-ron-desantis-announces-1-billion-auto-insurance-refunds-result-floridas.

[88] *Commissioner Mike Yaworsky Highlights Continued Auto Insurance Market Strength and Reinsurance Confidence in Florida*, Florida Office of Insurance Regulation (Nov. 2025): https://floir.com/newsroom/archives/item-details/2025/11/18/commissioner-mike-yaworsky-highlights-continued-auto-insurance-market-strength-and-reinsurance-confidence-in-florida.

APPENDIX A: WRITTEN FEEDBACK SUBMITTED TO THE WORKGROUP

The appendix will be added once the content of the Report has been finalized.