



191 Main Street, Suite 310 – Annapolis MD 21401 – 410-268-6871

March 4, 2020

The Honorable Delores G. Kelley, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, MD 21401

RE: Senate Bill 934 - Baltimore City and Prince George's County –
Lifeline Low-Cost Automobile Insurance Program - UNFAVORABLE

Dear Senator Kelly and Member of the Committee,

On behalf of the Maryland Association of Mutual Insurance Companies (MAMIC), I respectfully request an unfavorable report on Senate Bill 934.

MAMIC is comprised of eleven mutual insurance companies that are headquartered in Maryland and neighboring states. Approximately one-half of our members are domiciled in Maryland and are key contributors and employers in our local communities. Together, MAMIC members offer a wide variety of insurance products and services and provide coverage for thousands of Maryland citizens. As mutual insurers, MAMIC members are owned entirely by our policyholders, and any profits earned are either retained by the company or returned to policyholders in the form of dividends. By contrast, stock insurers are owned by shareholders. Profits generated by a stock insurer are distributed to investors who may or may not have a policy of insurance with the company.

Senate Bill 934 addresses a critically important issue – the affordability of automobile insurance in Maryland. Unfortunately, the proposal to address the cost of automobile insurance in the bill fails to account for the fundamental principles of insurance itself; i.e., principles such as the spread of risk and the law of large numbers that are essential to a properly functioning insurance market.

A better approach to the problem of affordability would be a careful, thoughtful examination of its elements. These include such fundamental issues as the operation of our civil liability system in Maryland, including the financial responsibility limits required on every automobile insurance policy, the increasing cost of repairing automobiles, with the technology and equipment advances being made in automobile manufacturing, and improving our system for verifying compliance with the statutory requirement that all vehicles in the State be insured.

Like a majority of the states, Maryland made automobile insurance compulsory in 1972. Notwithstanding that legal requirement, it is reliably estimated that one in ten vehicles garaged in Maryland are, at any given time, uninsured. With this background, and with the understanding that compulsory automobile insurance benefits all Maryland citizens, an appropriate subject for legislative attention would be a study of the cost drivers for automobile insurance, such as seat belt use, road safety, tort environment, distracted driving just to name a few. Just as there is no single cause of high automobile insurance rates, so there is no single answer.

SB 934 seeks to address high costs in two distinct regions of the state. If enacted, the bill would raise an obvious question about affordability in the remainder of Maryland. Automobile insurance costs are high throughout the state, so why are just two regions chosen to alleviate this statewide problem?

A second important shortcoming of the legislation is the approach of funding this new program with an annual fee (see, Section 20-6A-09). This formula is virtually identical to the existing assessment mechanism for the Maryland Automobile Insurance Fund (MAIF). Although MAIF assessments have not been utilized since 1989, they were highly controversial because of the direct subsidy required from one group of policyholders to another. Another fundamental feature of insurance is the sharing of risk. Subsidies are not an effective method of sharing risk.

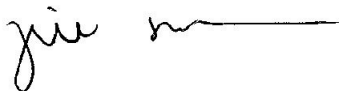
In closing, MAMIC reiterates our acknowledgement of the sponsors' concern about the affordability of automobile insurance. We share that concern. MAMIC respectfully requests an opportunity to work with legislators and mutually focus our energies on a comprehensive approach to this important issue.

Thank you for your consideration of our views.

Sincerely,

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Jill Showalter
MAMIC President

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