



MARYLAND
AUTO INSURANCE

POSITION ON PROPOSED LEGISLATION

Date: March 6, 2024

Position: Favorable with Amendments

Bill Number: Senate Bill 1081

Bill Title: Education – Public Schools – Driver Education and Transportation to Field Trips

The Maryland Automobile Insurance Fund

Maryland Automobile Insurance Fund (MAIF) was created in 1973 with two distinct functions. First, MAIF's Insured Division provides automobile insurance to Maryland residents that have been turned down by two insurance companies or canceled or non-renewed by one. *Insurance Article §20-301*. Second, MAIF's Uninsured Division administers the State's program to provide financial recovery to Maryland residents who are innocent victims in automobile accidents where there is no other collectible insurance. *Insurance Article §20-601*. For example, if a pedestrian who does not own a vehicle is injured by an uninsured driver, the victim can file a claim with the Uninsured Division.

Senate Bill 1081 provides additional funding to enable the Uninsured Division to continue to administer and pay claims under *Insurance Article §20-601*.

Senate Bill 1081 Review and Analysis:

The Uninsured Division funding is through an allocation of uninsured motorist penalty fines under *Transportation Article §17-106*, collections against at fault drivers who caused the injury and investment income. MAIF's share of the uninsured motorist penalty fines is a fixed sum, increased annually by the Consumer Price Index (CPI). *Transportation Article §17-106*.

In 2022, MAIF's statutory fine allocation was \$4.3 million and in 2023 was \$4.5 million. This increase resulted from approximately a 4% CPI increase. This funding is proving to be inadequate in light of much higher inflation in the insurance industry, increased claims and reduced collections. Senate Bill 1081 would provide much needed additional funding and, with amendments, would annualize this funding.

In 2023, MAIF's Uninsured Division estimated income totaled \$5.4 million -- \$4.5 million allocation from the fines, \$676,428 in collections and \$232,054 in net investment income. Claims, claims adjustment expenses, and other expenses totaled \$8.6 million. The 2023 year-end surplus is negative (\$1,359,267). It is anticipated the surplus deficit will grow in subsequent years without an additional allocation of the uninsured motorist penalty fines.

This funding has not kept pace with increased claims and expenses. Claim payments and provision for anticipated future payments increased by \$2.2 million from \$1.3 million in 2022 to \$3.5 million in 2023. At the same time, funding from the fines increased only \$200,000.

MAIF's Uninsured Division experience is consistent with general insurance industry trends. Insurance costs have increased much faster than the general inflation level due to increases in claim severity, rising medical costs, increased costs in auto parts due to supply chain issues, and other factors. In fact, the CPI for motor vehicle insurance has averaged 13% over the past 3 years compared to 2.2 % for the CPI used to adjust MAIF's funding. As a result, the funding to the Uninsured Division has not been sufficient and the surplus level has eroded.

While claims and expenses have grown, collections have decreased. High levels of inflation and other economic factors have impacted the ability of uninsured motorists to repay debts to the Uninsured Division, even where we file suit and obtain a judgement. In addition, House Bill 280 (Ch. 149, 2020) deleted the authority to suspend a driver's license based on an unpaid judgment and this decreased the incentive to repay the Uninsured Division. It is also noteworthy that 50% of the Uninsured Division claim payments were caused by hit and run drivers, so no recovery is available for those payments. All of these factors have led to decreased collections.

As drafted, Senate Bill 1081 increases the MAIF fine allocation for fiscal year 2026 only, from a projected \$4.5 million to \$6 million, an additional \$1.5 million. For other fiscal years, MAIF would receive the current fine allocation with adjusted CPI. Therefore, the one-time only additional fiscal year 2026 funding provided in Senate Bill 1081 still leaves the MAIF Uninsured Division with an ongoing negative surplus.

MAIF has provided the sponsor amendments for Senate Bill 1081 to annualize the additional funding. The amendment would allocate an additional \$2,500,000 from the uninsured motorist fines. This amount would be added to the base, adjusted annually by the CPI, for the exclusive use of the Uninsured Division of MAIF to maintain financial stability to pay claims. Under the amendment, the enhanced funding would start in Fiscal Year beginning July 1, 2024 (FY 2025) and the amendment amends the effective date accordingly. In regard to MAIF, the amendments mirror House Bill 1482.

Conclusion

For these reasons, MAIF urges a favorable report with amendments on Senate Bill 1081.

For Information:

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