

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	<u>CY 05 Actual</u>	<u>CY 06 Actual</u>	<u>CY 07 Budgeted</u>	<u>CY 07 Actual*</u>	<u>CY 08 Budgeted</u>	<u>CY 07-08 \$ Change</u>	<u>CY 07-08 % Change</u>
Insured Division	\$49,818	\$45,664	\$43,083	\$45,658	\$50,061	\$4,404	9.6%
Uninsured Division	1,895	1,740	1,659	1,783	1,868	85	4.8%
Nonbudgeted Expenditures	\$51,713	\$47,404	\$44,742	\$47,441	\$51,929	\$4,488	9.5%

* 2007 actual data are actual through September 30, 2007, with estimates for October 1 through December 31, 2007.

- The calendar 2008 operating budget increases by \$4.5 million, or 9.5%, over calendar 2007. Most of the increase occurs in the Insured Division.
- The calendar 2007 actual expenditures increased modestly over calendar 2006 – \$36,072, or 0.08% – despite calendar 2007 budgeted expenditures that were \$2.7 million lower than calendar 2006.

Personnel Data

	<u>CY 05 Actual</u>	<u>CY 06 Actual</u>	<u>CY 07 Budgeted</u>	<u>CY 07 Actual*</u>	<u>CY 08 Budgeted</u>	<u>CY 07-08 Change</u>
Regular Positions**	484.50	434.00	375.50	407.90	452.90	45.00
Contractual FTEs**	3.50	3.00	1.30	4.16	4.16	0.00
Total Personnel**	488.00	437.00	376.80	412.10	457.10	45.00

*2007 actual data are actual through September 30, 2007, with estimates for October 1 through December 31, 2007.

**As reported by the Maryland Automobile Insurance Fund.

- The calendar 2008 proposed budget for the Maryland Automobile Insurance Fund includes 45 new positions for the Insured Division.

Note: Numbers may not sum to total due to rounding.

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- The calendar 2007 actual regular positions were 26.1 lower than in calendar 2006. The number of contractual positions increased by 1.2.
- The calendar 2007 actual data was significantly different than what was anticipated in the 2007 budgeted personnel, which included 32.4 fewer regular positions and 2.86 fewer contractual positions than the calendar 2007 actual personnel data.

Analysis in Brief

Major Trends

Insured Division Projected to Grow in 2008: After several years of declines in the number of policies written, claims, and accidents in the Insured Division, these measures are projected to increase in calendar 2008.

Issues

Insured Division Surplus: The surplus for the Insured Division has grown rapidly in recent years, more than doubling since the end of calendar 2002 to \$186.0 million as of November 30, 2007.

Recommended Actions

1. Adopt committee narrative requiring a report on policies to address excess surplus.

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Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) is an independent, nonbudgeted, State agency. MAIF operates on a calendar-year basis.

MAIF has two key responsibilities. First, MAIF provides automobile insurance policies for those residents of Maryland whose applications have been declined by private insurers. This is referred to as the Insured Division. The Insured Division, like other automobile insurance companies, handles claims for policyholders. In addition, MAIF works to minimize subsidizing these activities by Maryland's commercially insured motorists. The Insured Division is funded through premiums, investment income, and, when necessary, a surcharge on premiums statewide. MAIF is required to assess a surcharge on the Maryland automobile insurance industry whenever (1) the surplus of the Insured Division falls below the assessment threshold of 25% of the average net direct written premiums for the previous three years, and (2) there is an operating loss.

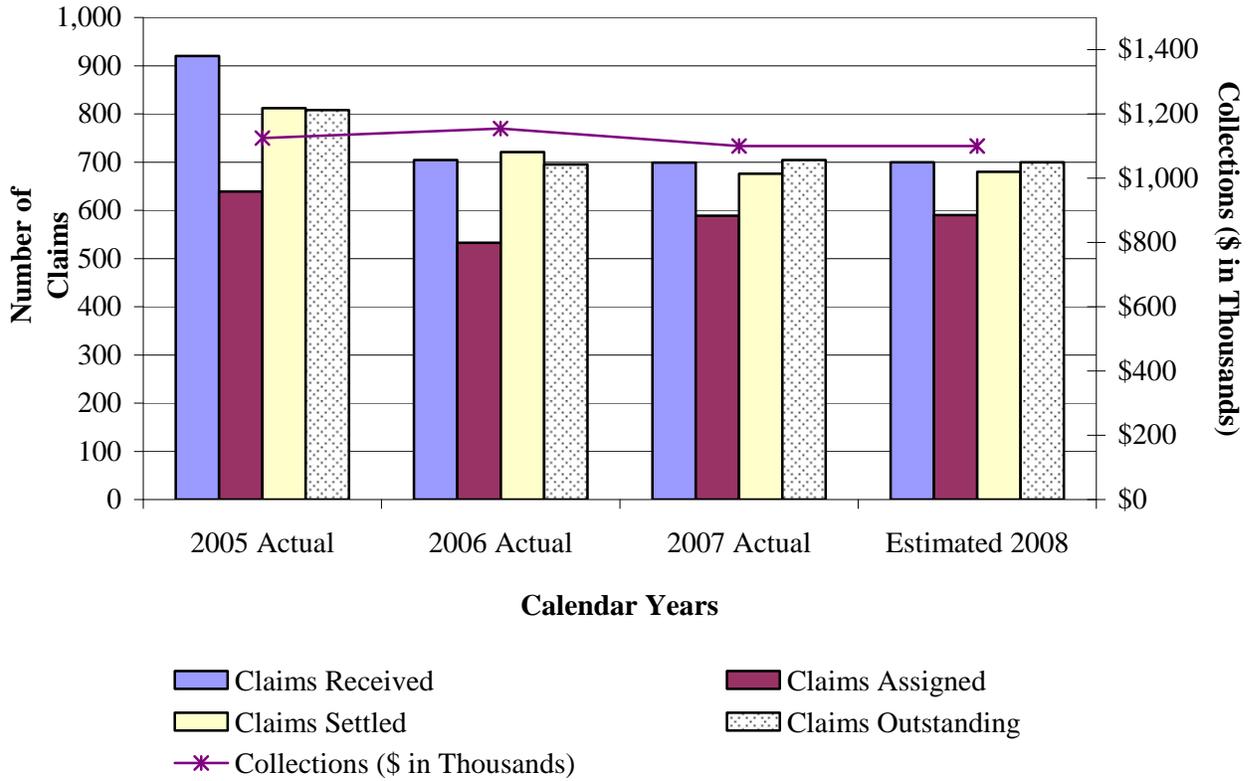
The second responsibility of MAIF is to administer and pay claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured, or for hit and run incidents where a responsible party cannot be found. This function of MAIF is referred to as the Uninsured Division. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, MAIF receives income from investments and uninsured motorist fines.

Performance Analysis: Managing for Results

As seen in **Exhibit 1**, in recent years the Uninsured Division has experienced decreases in several program measurement areas. After large declines between calendar 2005 and 2006, for all four measures of claims activities, changes in calendar 2007 were more moderate. The number of claims assigned and claims outstanding actually increased in calendar 2007, while the other two claims measures continued to decline. The amount of collections remained relatively stable, around \$1.1 million, in this time period. Calendar 2008 estimates are based on calendar 2007 experiences.

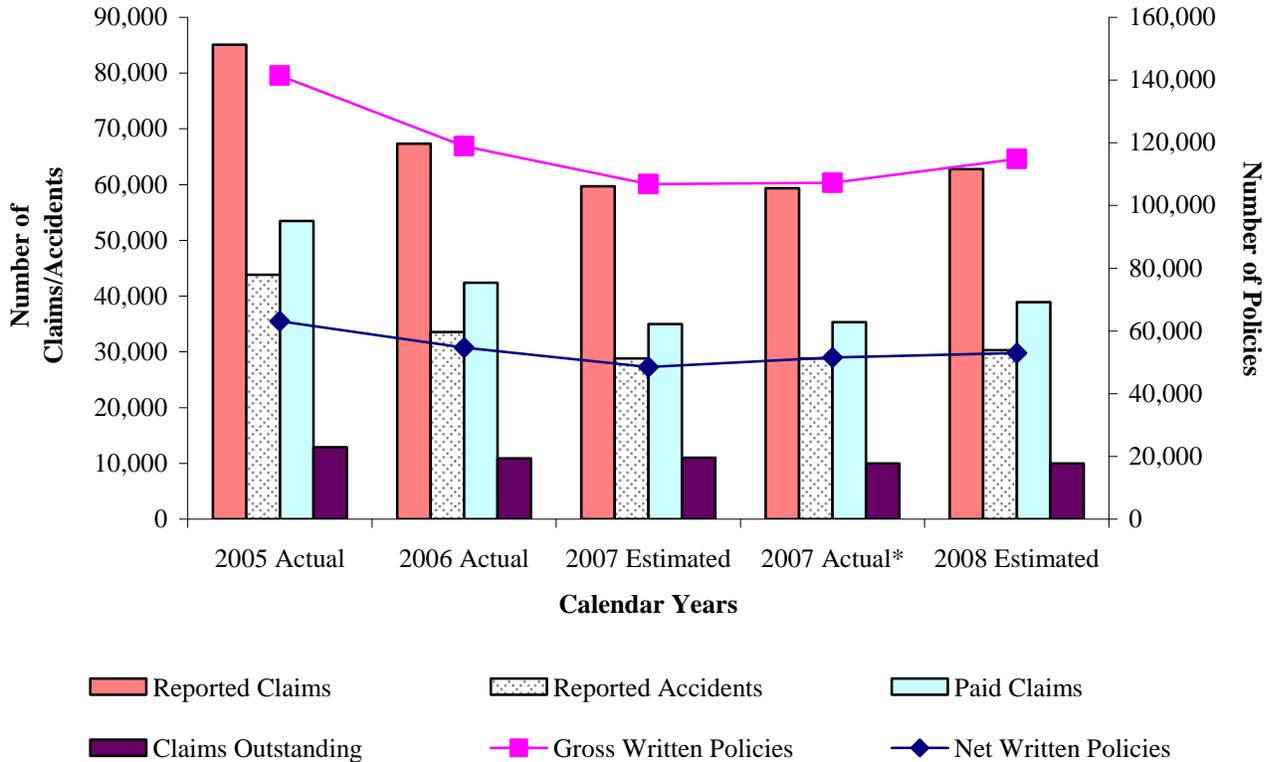
Exhibit 2 shows the declining trend in the numbers of gross written and net written policies between calendar 2005 and 2007. The actual numbers of gross and net written policies in calendar 2007 are slightly higher than were anticipated. Despite the recent declining trends, the numbers are projected to increase in calendar 2008, by 7.2% and 2.7%, respectively.

**Exhibit 1
Program Measurement Data
Uninsured Division
Calendar 2005-2008**



Source: Maryland Automobile Insurance Fund

**Exhibit 2
Performance Measurement Data
Insured Division
Calendar 2005-2008**



*2007 Actual figures are subject to change due to year-end audit adjustments.

Source: Maryland Automobile Insurance Fund

The claims activity of the Insured Division, as seen in Exhibit 2, displays similar patterns as the policy activity. Between calendar 2005 and 2007, the number of reported claims, reported accidents, paid claims, and claims outstanding declined. This occurred despite the calendar 2007 actuals which were slightly higher than was originally estimated for reported accidents and paid claims. In calendar 2008, MAIF is anticipating increases in the number of reported claims, reported accidents, and paid claims. The number of claims outstanding is expected to decrease slightly.

MAIF indicates that its operations are counter-cyclical, which means that in times when the private market is doing well, the Insured Division becomes smaller with fewer policies written. Similarly, in times when the private market tightens, MAIF expects the Insured Division to grow. Due to current and expected conditions, MAIF is planning for a period of expansion in calendar 2008.

Calendar 2007 Operations

MAIF operates on a calendar-year basis. The 2007 budget information is actual data through September 30, 2007, with estimates for the remainder of the calendar year. Figures presented here may vary as a result from the final expenditures.

The MAIF budget was anticipated to be \$44.7 million. The calendar 2007 expenditures were \$2.7 million higher than were anticipated, \$47.4 million. This was only a modest increase over calendar 2006 – \$36,072, or 0.08%.

The majority of the increase between the calendar 2007 budgeted and actual expenditures was a result of salary and wages, \$2.2 million. MAIF anticipated having 376.8 positions in calendar 2007, but actually had 412.1 positions. One other substantial increase between the actual and anticipated expenditures occurred among contractual services. This increase of \$813,298 was largely the result of software maintenance and the replacement of compressors and pumps.

The largest decrease in calendar 2007 actual expenditures from the anticipated expenditures was communications, \$211,565. This was the result of lower than anticipated spending on telephones.

Calendar 2008 Projected Budget

MAIF, a nonbudgeted fund agency, submits its budget to the General Assembly for informational purposes only. **Exhibit 3** shows the major changes in the operating expenses for MAIF between calendar 2007 and 2008. The calendar 2008 budget for MAIF increases by \$4.5 million, or 9.5%, over calendar 2007. The growth is concentrated largely in the Insured Division, which has an increase of \$4.4 million, or 9.6%. The Uninsured Division is expected to grow by a modest \$84,788, or 4.8%.

The majority of this increase, \$2.7 million, occurs among salary and wages. An increase of \$2.3 million is the result of the 45 new positions in the Insured Division. MAIF is anticipating growth in the Insured Division in calendar 2008 due to predicted private market conditions.

MAIF has a new House Counsel Unit in Prince George's County. The new House Counsel Unit was created in Prince George's County for two reasons: (1) the large number of policyholders in the area; and (2) the cost of hiring local attorneys. Several increases in the budget are associated with this new unit. In particular, there are increases in the areas of supplies, equipment, and rent. These increases account for \$124,798.

Supplies and additional equipment also increase related to other factors. Supplies increase by another \$65,488, mostly related to anticipated increases in policies. Additional equipment increases by another \$758,766, which is largely due to computer software.

Exhibit 3
Governor’s Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
2007 Actual	\$47,441	\$47,441
2008 Proposed Budget	51,929	51,929
Amount Change	4,488	4,488
Percent Change	9.5%	9.5%
 Where It Goes:		
Personnel Expenses		
45 new positions in Insured Division.....		\$2,261
Other salary adjustments and health insurance.....		567
Social Security contributions.....		12
Contractual positions.....		7
Overtime.....		-10
Temporary manpower.....		-164
Other Changes		
Additional equipment.....		759
Technical and special fees.....		429
Contractual services.....		169
Changes in payment process for vehicles.....		159
New House Counsel unit.....		125
Communications.....		80
Supplies.....		65
Other changes.....		29
Total		\$4,488

Note: Numbers may not sum to total due to rounding. 2007 actual is actual data through September 30, 2007, and estimates from October 1 through December 31. The Maryland Automobile Insurance Fund operates on a calendar-year basis.

An increase of \$429,379 in technical and special fees is primarily related to the projected costs for re-insurance and pre-inspection.

MAIF Uninsured Division Financial Statement

Exhibit 4 shows the financial statement for the Uninsured Division of MAIF. MAIF operates on a calendar-year basis, in accordance with State regulations for insurance companies. The 2007 information is actual data as of November 30, 2007, and does not include December estimates. Comparisons between calendar years may be over- or understated because information for December is not included.

Exhibit 4 Financial Statement Uninsured Division

	<u>Actual 2006</u>	<u>Actual as of 11/30/2007*</u>	<u>Estimated 2008</u>
Motor Vehicle Administration Fines	\$2,366,767	\$2,451,940	\$2,525,000
Collections on Notes and Judgments	1,154,013	1,014,269	1,000,000
Investment Income	448,972	566,094	566,000
Income	\$3,969,752	\$4,032,303	\$4,091,000
Claims Incurred	\$1,228,404	\$678,738	\$699,100
Claims Expenses Incurred	880,506	531,329	547,300
Collection Expenses	574,901	452,779	453,000
Administrative Expenses	606,500	675,081	675,000
Expenditures	\$3,290,311	\$2,337,927	\$2,374,400
Net Gain	\$679,441	\$1,694,376	\$1,716,600
Beginning Surplus	\$6,397,095	\$7,146,385	\$9,095,397
Net Income	679,441	1,694,376	1,716,600
Unrealized Gain (Losses)	69,849	254,636	255,000
Extraordinary Transfer			
Ending Surplus	\$7,146,385	\$9,095,397	\$11,066,997

*Year-end adjustments and reserve changes may significantly change the results. All 2007 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

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Calendar 2007

The net gain in calendar 2007 was \$1.7 million, which is an increase of \$1.0 million over calendar 2006.

The overall income for the Uninsured Division increased by \$62,551 in calendar 2007 compared to calendar 2006. The income for the Uninsured Division comes from several sources. The Uninsured Division receives a portion of the uninsured motorist fines collected by the Motor Vehicle Administration (MVA). The portion that MAIF receives is a set amount which is increased each year based on the Consumer Price Index Medical Care Index. Investment income for the Uninsured Division also increased in calendar 2007 by \$117,122. MAIF is able to collect from the uninsured at-fault party to recover claims paid out through the Uninsured Division through notes and judgments. In calendar 2007, the Uninsured Division collected \$139,744 less through collection on these notes and judgments than in calendar 2006.

The total expenditures of the Uninsured Division decreased by \$952,384 in calendar 2007 compared to calendar 2006. The largest decrease (\$549,666) occurred among claims incurred. Smaller decreases occurred among claims expenses incurred and collection expenses. Administrative expenses increased by \$68,581.

The surplus for the Uninsured Division increased – by \$1.9 million – to \$9.1 million in calendar 2007. This is a larger increase than the net gain because there was an additional increase of \$254,646 due to unrealized gains.

Calendar 2008

The calendar 2008 projections are largely based on calendar 2007 experience. The projected increase in income in calendar 2008 is \$58,697. This increase of \$73,060 is largely the result of the expected increase in income from MVA fines.

The expenditures in calendar 2008 are projected to increase by \$36,473 in calendar 2008. This increase occurs mostly among claims incurred and claims expenses incurred.

As a result of the modest projected increases in income and expenditures, the projected net gain remains relatively stable at \$1.7 million in calendar 2008. This is an increase of \$22,224 over calendar 2007.

The surplus is projected to increase – by \$2.0 million – to \$11.1 million in calendar 2008. This increase is larger than the net gain, as a result of a projected unrealized gain of \$255,000.

MAIF Assessment Threshold

MAIF is required to assess a surcharge on the Maryland automobile insurance industry which may be passed onto policyholders of those companies after two triggers occur. First, the surplus for the Insured Division must be below 25% of the three-year average of the net direct written premium. Second, it must experience an operating loss.

The assessment threshold varies from year to year as a result of changes in the three-year average of the net direct written premium.

Exhibit 5 shows the recent and estimated assessment thresholds. The net direct written premium has declined in recent years. As a result, the three-year average of the net direct written premium decreased from \$196.9 million in calendar 2006 to \$159.6 million in estimated calendar 2007. Similarly, the assessment threshold also declined – by \$9.3 million between calendar 2006 and estimated calendar 2007 – to \$39.9 million. The assessment threshold is expected to continue to decline in calendar 2008 to \$35.1 million.

Exhibit 5 Assessment Threshold Insured Division Calendar 2006-2008

<u>Calendar Year</u>	<u>Direct Written Premium</u>	<u>3-year Average</u>	<u>Assessment Threshold</u>
2004	\$243,848,620		
2005	193,575,436		
2006	153,127,206	\$196,850,421	\$49,212,605
2007 Est.	132,000,000	159,567,547	39,900,000
2008 Est	135,600,000	140,242,402	35,100,000

Source: Maryland Automobile Insurance Fund

MAIF Insured Division Financial Statement

Exhibit 6 shows the financial statement for the Insured Division of MAIF. MAIF operates on a calendar-year basis in accordance with State regulations for insurance companies. The 2007 data are actual as of November 30, 2007, and do not include estimates through December. Comparisons between calendar years may be over- or understated because information for December is not included.

**Exhibit 6
Financial Statement
Insured Division**

	Actual 2006	Actual as of 11/30/2007*	Estimated 2008
Earned Premium	\$173,155,367	\$128,762,459	\$134,000,000
Investment Income	23,671,923	26,574,356	29,000,000
Other Income	-391,143	86,148	0
Income	\$196,436,147	\$155,422,963	\$163,000,000
Claim Incurred	\$102,621,541	\$83,168,235	\$91,100,000
Claim Expenses Incurred	33,185,339	26,676,390	28,900,000
Other Expenses	32,778,491	27,284,987	29,500,000
Expenditures	\$168,585,371	\$137,129,612	\$149,500,000
Net Gain (Loss)	\$27,850,776	\$18,293,351	\$13,500,000
Beginning Surplus	\$149,998,416	\$178,308,502	\$186,000,000
Net Income	27,850,776	18,293,351	13,500,000
Change to Non-admitted	459,310	-10,507,166	-10,500,000
Ending Surplus	\$178,308,502	\$186,094,687	\$189,000,000
Assessment Threshold	\$49,212,605	\$39,900,000	\$35,100,000
Ratio of Surplus to Assessment Threshold	3.62	4.66	5.38

*Year-end-adjustments and reserve changes may significantly change the results. All 2007 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund; Department of Legislative Services

Expenses were \$31.5 million lower in calendar 2007 than in calendar 2006. The majority of this decrease – \$19.5 million – occurs among claims incurred. Smaller declines also occurred among claims expenses incurred and other expenses.

The surplus increased – by \$7.8 million – to \$186.1 million in calendar 2007. This increase is smaller than the net gain because the change to non-admitted assets is -\$10.5 million. The change to non-admitted assets largely reflects fluctuations in the stock market because this line is where differences between the cost and market price of stocks are recorded. At this level, the surplus is 4.66 times larger than the estimated calendar 2007 assessment threshold.

Calendar 2008

The net gain in calendar 2008 is projected to be \$13.5 million, which is \$4.8 million lower than in calendar 2007. This results from an increase in expenditures which is larger than the projected income increase.

In calendar 2008, the income of the Insured Division is expected to increase by \$7.6 million over calendar 2007. The earned premium is projected to increase by \$5.2 million compared to calendar 2007. Investment income is also projected to increase.

Expenses are projected to increase by \$12.4 million in calendar 2008 compared to calendar 2007. This projected increase occurs mostly in claims incurred, \$7.9 million. Other smaller increases are projected in claims expenses incurred and other expenses.

The surplus is projected to increase – by \$2.9 million – in calendar 2008 to \$189.0 million. This increase is less than the projected net income because of the projected change to non-admitted assets. The projected ending surplus in calendar 2008 is 5.38 times larger than the estimated assessment threshold for that year.

MAIF Active Vehicle Analysis

Exhibit 7 provides information on the distribution of policies within the State by territory. The distribution by territory may impact the number and value of claims that may be expected.

Overall, the distribution of policies has remained relatively stable between calendar 2004 and 2007. Several territories had relatively small fluctuations in the percent of MAIF policies located in that area. There were some notable trends. The two territories of Prince George's County have an increasing percentage of the total MAIF policies in recent years. This trend is particularly evident in inner Prince George's County, which after several years of a rising trend, increased, by 1.9 percentage points to 23.4% in calendar 2007. In addition, Baltimore City, after holding steady around 9% of MAIF policies in recent years, decreased to 7.9% in calendar 2007.

Exhibit 7
Active Vehicle Analysis
Insured Division
Calendar 2004-2007

<u>Territory</u>	<u>2004</u>	<u>Dist %</u>	<u>2005</u>	<u>Dist %</u>	<u>2006</u>	<u>Dist %</u>	<u>2007</u>	<u>Dist %</u>
Baltimore City	12,520	9.2%	9,033	9.0%	7,673	9.1%	6,096	7.9%
Inner Baltimore County	9,091	6.7%	5,940	5.9%	4,921	5.8%	4,477	5.8%
Outer Montgomery	6,202	4.6%	4,893	4.9%	3,741	4.4%	3,525	4.6%
Outer Prince George's County	10,373	7.6%	8,075	8.0%	7,169	8.5%	6,648	8.6%
Outer Baltimore County	6,414	4.7%	4,163	4.1%	3,326	3.9%	2,775	3.6%
Inner Montgomery County	6,761	5.0%	4,504	4.5%	3,558	4.2%	3,312	4.3%
Inner Prince George's County	27,316	20.1%	20,618	20.5%	18,178	21.5%	18,113	23.4%
Eastern Shore	6,764	5.0%	5,463	5.4%	4,605	5.4%	4,598	5.9%
Rest of the State	50,446	37.1%	38,017	37.8%	31,363	37.1%	27,848	36.0%
Total Vehicles	135,887	100.0%	100,706	100.0%	84,534	100.0%	77,392	100.0%

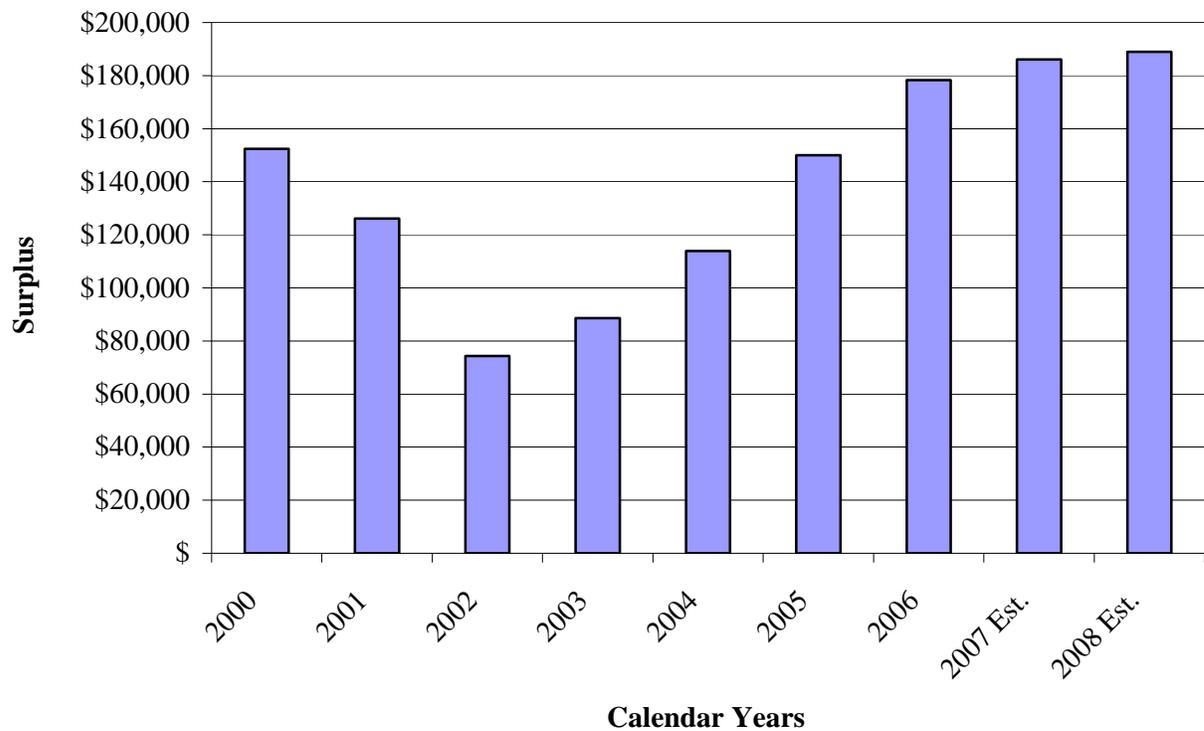
Source: Maryland Automobile Insurance Fund

Issues

1. Insured Division Surplus

The size of the surplus for the Insured Division of MAIF has increased dramatically in recent years. **Exhibit 8** shows the surplus, as of December 31, in each calendar year since 2000. Calendar 2007 is the surplus as of November 30, 2007. The calendar 2008 surplus is an estimate. The surplus, for both years, is subject to change.

Exhibit 8
Recent Surplus Changes
Insured Division
Calendar 2000-2008
(\$ in Thousands)



Source: Maryland Automobile Insurance Fund

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From calendar 2000 to 2002 the surplus decreased by nearly \$78.0 million, from \$152.4 million to \$74.4 million.

This trend began to turn around in calendar 2003 with a small increase in the size of the surplus. By calendar 2004, the surplus reached \$114.0 million, an increase of \$25.4 million over calendar 2003. In calendar 2005, the surplus increased by \$36.0 million over calendar 2004.

Following calendar 2005, the surplus began to grow at a slower pace. The ending surplus in calendar 2006 was \$178.3 million, a \$28.3 million increase over calendar 2005. As of November 30, 2007, the surplus was \$186.1 million, an increase of \$7.8 million.

In calendar 2008, due to anticipated expenditure growth greater than the expected income growth and a continued projection of a large negative change in non-admitted assets, the surplus growth is anticipated to be only \$2.9 million. This growth brings the surplus to an estimated \$189.0 million.

Changes in Operations Affecting Surplus

Despite recent increases in the size of the surplus, several factors could influence the size and growth of the surplus in future years.

In response to historical factors which impact rates, MAIF lowered insurance rates twice in 2007, 11.3% in February 2007 and 2.3% in October 2007. These lowered rates do not immediately impact the earned premium of MAIF. First, premiums are earned over a period of time. In addition, rate changes cannot be written into policies until it is time for a new policy. This can be expected to impact the earned premium and total income of the Insured Division in upcoming calendar years. This may be partially offset by anticipated increases in the number of policies written which could raise the net direct written premiums despite the recent rate declines.

In addition, MAIF anticipates an increase in the number of claims which would raise expenditures and could be expected to lower net income. However, as seen in Exhibit 8, MAIF continues to project a modest increase in the surplus in calendar 2008.

Assessment Surcharge History

Section 20-404 of the Insurance Article contains a mechanism to assess a surcharge on automobile insurance companies under certain circumstances. During its early years, MAIF assessed the automobile insurance companies nearly every year, totaling \$137.1 million over a 15-year period from 1977 to 1988. The assessment mechanism, by its statutory nature, yields individual company surcharges that are either in excess or a shortfall of the targeted amount. These over/under collections are credited toward the next assessment under Section 20-409 of the Insurance Article. Because there were no assessments after 1988, MAIF established a \$10.8 million liability, reflecting prior years' over-recoupment that must be credited to the companies in the event of a future assessment.

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The assessment threshold was revised in Chapter 139 of 1995, with the affect of reducing the incidence of a surcharge. The current assessment threshold requires MAIF to assess a surcharge to automobile insurance companies when the surplus falls below the required level and an operating loss has been incurred. This level is based on the three-year average of net direct written premiums.

Exhibit 9 shows a recent historical trend of the MAIF assessment threshold.

Exhibit 9
Historical Surplus Compared to the Assessment Threshold
Insured Division
Calendar 2000-2008
(\$ In Thousands)

<u>Calendar Year</u>	<u>Surplus</u>	<u>Assessment Threshold</u>	<u>Ratio</u>
2000	\$152,375	\$26,756	5.69
2001	126,156	29,376	4.29
2002	74,383	39,070	1.90
2003	88,573	50,336	1.76
2004	113,969	57,635	1.98
2005	149,998	56,350	2.66
2006	178,309	49,213	3.62
Est. 2007	186,095	39,900	4.66
Est. 2008	189,000	35,100	5.38

Source: Maryland Automobile Insurance Fund; Department of Legislative Services

In the period from calendar 2000 to 2002, the surplus of MAIF decreased from \$152.4 million to \$74.4 million. During this time, the private market tightened up and, because the operations of MAIF are countercyclical, MAIF's business grew. The direct written premiums of MAIF increased from \$103.6 million in calendar 2000 to \$238.8 million in calendar 2003. As a result of the rising direct written premiums, the assessment threshold began to increase. The assessment threshold nearly doubled during this time as it increased from \$26.8 million to \$50.3 million. Due to the declining surplus and the rising assessment threshold, the surplus to assessment threshold decreased from 5.69 in calendar 2000 to 1.76 in calendar 2003.

Calendar 2004 was the beginning of the turnaround in the private market, although the full effects were not felt at MAIF until calendar 2005. Although the surplus began to recover in calendar 2003, the rapid growth did not begin until calendar 2004. The direct written premiums, however, continued to increase through calendar 2004. As a result, the assessment threshold also continued to increase reaching \$57.6 million in calendar 2004. Despite this, the surplus to assessment threshold ratio began to turn around in calendar 2004 increasing from 1.76 to 1.98. By calendar 2005, the surplus was growing and the assessment threshold began to decline, as a result, the surplus to assessment threshold ratio began to increase more substantially.

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This trend has continued in recent years as the private market conditions have not significantly altered. In calendar 2006, the ratio of the surplus to assessment threshold was 3.62.

The surplus is projected to continue to grow through calendar 2008. However, the growth of the surplus is slowing. In calendar 2006 the surplus grew by \$28.3 million over calendar 2005. However, in calendar 2007 the surplus is estimated to grow by only \$7.8 million. An even smaller growth is projected in calendar 2008. The assessment threshold is also projected to continue to decline through calendar 2008. As a result, the surplus to assessment threshold ratio is projected to increase through calendar 2008 to 5.38.

Conclusion

In recent years, the surplus of the Insured Division has grown rapidly. Recent rate changes and predicted changes in the private automobile insurance market may reduce the growth of the surplus and/or the ratio of the surplus to the assessment threshold. However, MAIF currently estimates both an increase in surplus and a decline in the assessment ratio in calendar 2008.

The surplus to assessment threshold ratio can change dramatically in a short period of time, as shown in Exhibit 9. As a result, it is prudent for MAIF to stay above the level of the assessment threshold as a means of avoiding assessing the surcharge. By calendar 2008, the estimated surplus is over five times the size of the estimated assessment threshold. At this level, the question begins to be raised about whether the predicted conditions of the private market require this level of surplus.

MAIF has a built-in mechanism, see Section 20-404 of the Insurance Article, to increase the surplus when it is not considered adequate. There is currently no provision in the code governing MAIF about what should be done if the surplus becomes too large. Unlike private insurance companies, there is no provision to provide a dividend to policyholders.

The Department of Legislative Services recommends the committees adopt committee narrative requiring a report from MAIF and the Maryland Insurance Administration. This report should focus on methods to determine the reasonableness of the surplus of the Insured Division of MAIF, who should be responsible for making this determination, and the development of a policy on how to reduce the size of the surplus if it is determined to be excessive given the predicted private market conditions.

Recommended Actions

1. Adopt the following narrative:

Report on a Policy to Address Excess Surplus in the Insured Division of MAIF: The committees direct the Maryland Automobile Insurance Fund (MAIF) and the Maryland Insurance Administration (MIA) to study issues related to the surplus in the Insured Division of MAIF. In recent years, the surplus for this division has grown rapidly. Recent rate changes and changes in the market may limit this growth. However, at the end of calendar 2008, the projected surplus will be more than five times the estimated assessment threshold. While the statute governing MAIF contains a policy focused on the problem of a surplus that is too small, no such policy exists for a surplus that is too large. MAIF and MIA should work together to identify options on methods of determining the reasonableness of the surplus in the Insured Division, who should be responsible for making this determination, and methods of reducing the surplus if it is determined to be excessive.

Information Request	Authors	Due Date
Report on a policy to address excess surplus	MAIF MIA	October 1, 2008

Audit Findings

Audit Period for Last Audit:	August 12, 2002 – December 12, 2005
Issue Date:	October 2006
Number of Findings:	3
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: Certain claims payments were made without review and approval by supervisory personnel.

Finding 2: Critical computer system access capabilities were not adequately controlled.

Finding 3: Claims processing procedures manual was not current.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Maryland Automobile Insurance Fund**

<u>Object/Fund</u>	<u>CY07 Projected</u>	<u>CY08 Estimated</u>	<u>CY07-08 Amount Change</u>	<u>Percent Change</u>
Positions				
01 Regular	407.90	452.90	45.00	11.0%
02 Contractual	4.16	4.16	0.00	0.0%
Total Positions	412.10	457.10	45.0	10.9%
Objects				
01 Salaries and Wages	\$ 29,742,959	\$ 32,416,318	\$ 2,673,360	9.0%
02 Technical and Spec. Fees	8,452,644	8,882,023	429,379	5.1%
03 Communications	1,320,310	1,399,883	79,573	6.0%
04 Travel	138,927	145,082	6,155	4.4%
06 Fuel and Utilities	491,515	496,357	4,842	1.0%
07 Motor Vehicle Operations and Maintenance	167,932	326,883	158,951	94.7%
08 Contractual Services	5,516,250	5,685,209	168,959	3.1%
09 Supplies and Materials	416,614	515,152	98,538	23.7%
10 Equipment – Replacement	8,084	27,207	19,123	236.6%
11 Equipment – Additional	795,164	1,597,429	802,265	100.0%
13 Fixed Charges	379,099	428,910	49,811	13.1%
14 Land and Structures	11,048	8,400	-2,648	-24.0%
Total Objects	\$ 47,440,545	\$ 51,928,853	\$ 4,488,308	9.5%
Funds				
07 Nonbudgeted Fund	\$ 47,440,545	\$ 51,928,853	\$ 4,488,308	9.5%
Total Funds	\$ 47,440,545	\$ 51,928,853	\$ 4,488,308	9.5%

Note: 2007 actual are through September 30, 2007, and estimates are from October 1 through December 31, 2007.

**Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Program/Unit</u>	<u>CY07 Actual</u>	<u>CY08 Estimate</u>	<u>Change</u>	<u>CY08-CY09 % Change</u>
42 Insured Division	\$ 45,657,787	\$ 50,061,308	\$ 4,403,521	9.6%
47 Uninsured Division	1,782,756	1,867,545	84,789	4.8%
Total Expenditures	\$ 47,440,543	\$ 51,928,853	\$4,488,310	9.5%
Nonbudgeted Fund	\$ 47,440,543	\$ 51,928,853	\$4,488,310	9.5%
Total Appropriations	\$ 47,440,543	\$ 51,928,853	\$4,488,310	9.5%

Note: 2007 actual are through September 30, 2007, and estimates are from October 1 through December 31, 2007.