

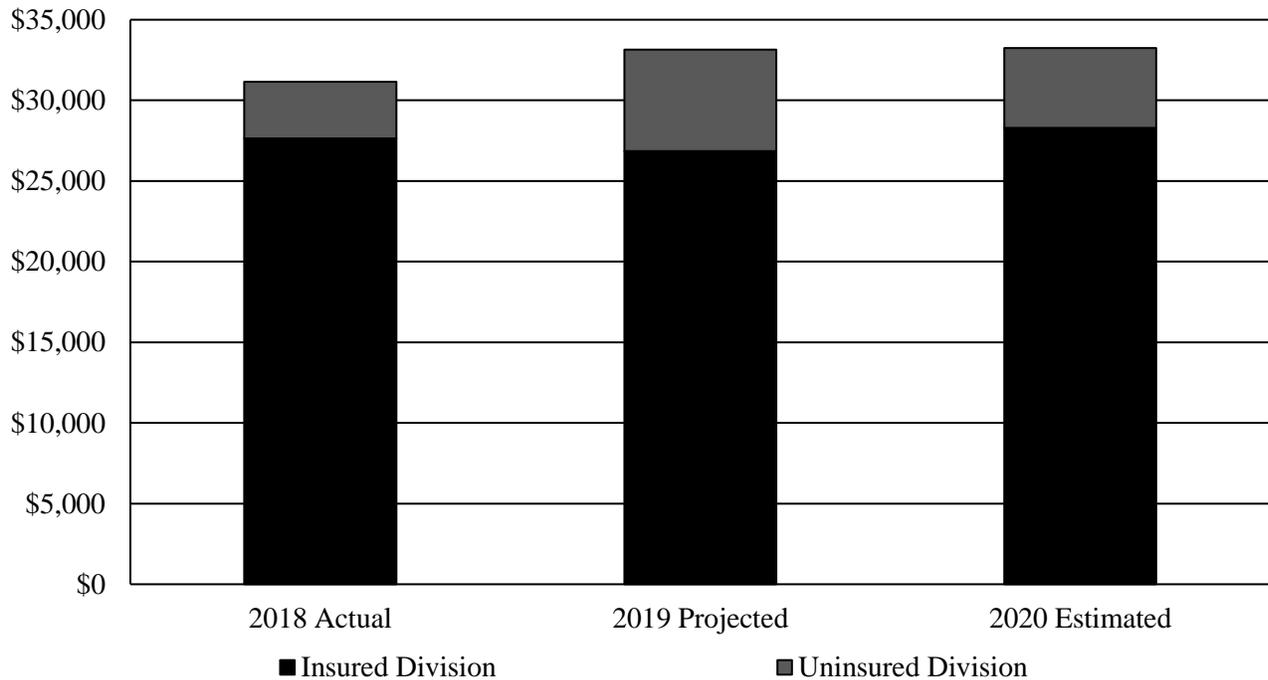
D70J00
Maryland Automobile Insurance Fund

Executive Summary

The Maryland Automobile Insurance Fund (Maryland Auto) is an independent, nonbudgeted State agency. Maryland Auto is organized into two divisions. The Insured Division is the automobile insurer of last resort for Maryland residents. The Uninsured Division administers and pays 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.

Operating Budget Summary

Budget Increases by \$0.1 Million or 0.31% to \$33.3 Million in Calendar 2020
(\$ in Thousands)



- Maryland Auto is an independent, nonbudgeted State agency created under the laws of Maryland. Like other insurance companies, Maryland Auto operates on a calendar year basis.
- Maryland Auto’s projected calendar 2020 budget increased by \$101,837, or 0.3%. During that same period, the Insured Division’s budget increased \$1.4 million, or 5.3%, and the Uninsured Division’s budget decreased \$1.3 million, or 21.2%.

Key Observations

- ***Maryland Auto Installment Plan Subscription Rate Remains Low:*** Utilization of installment billing plans offered by Maryland Auto has remained low since the creation of the plans under Chapter 334 of 2013. Maryland Auto believes this to be due to the high down payment required under the statute of either 20% or 25%, depending on the cost of the premium.

Operating Budget Recommended Actions

1. Adopt committee narrative on the likelihood and impact of a Maryland Automobile Insurance Fund assessment report.

D70J00
Maryland Automobile Insurance Fund

Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (Maryland Auto) is an independent, nonbudgeted State agency. Similar to other insurance companies, Maryland Auto operates on a calendar year basis.

Maryland Auto is organized into two divisions. The Insured Division is the automobile insurer of last resort for Maryland residents. The Insured Division, like other automobile insurance carriers, handles claims for policyholders and is funded through premiums, investment income, and, when necessary, a surcharge on premiums statewide. The Uninsured Division administers and pays 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. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, Maryland Auto receives income from investments and uninsured motorist fines.

Maryland Auto's three key goals are:

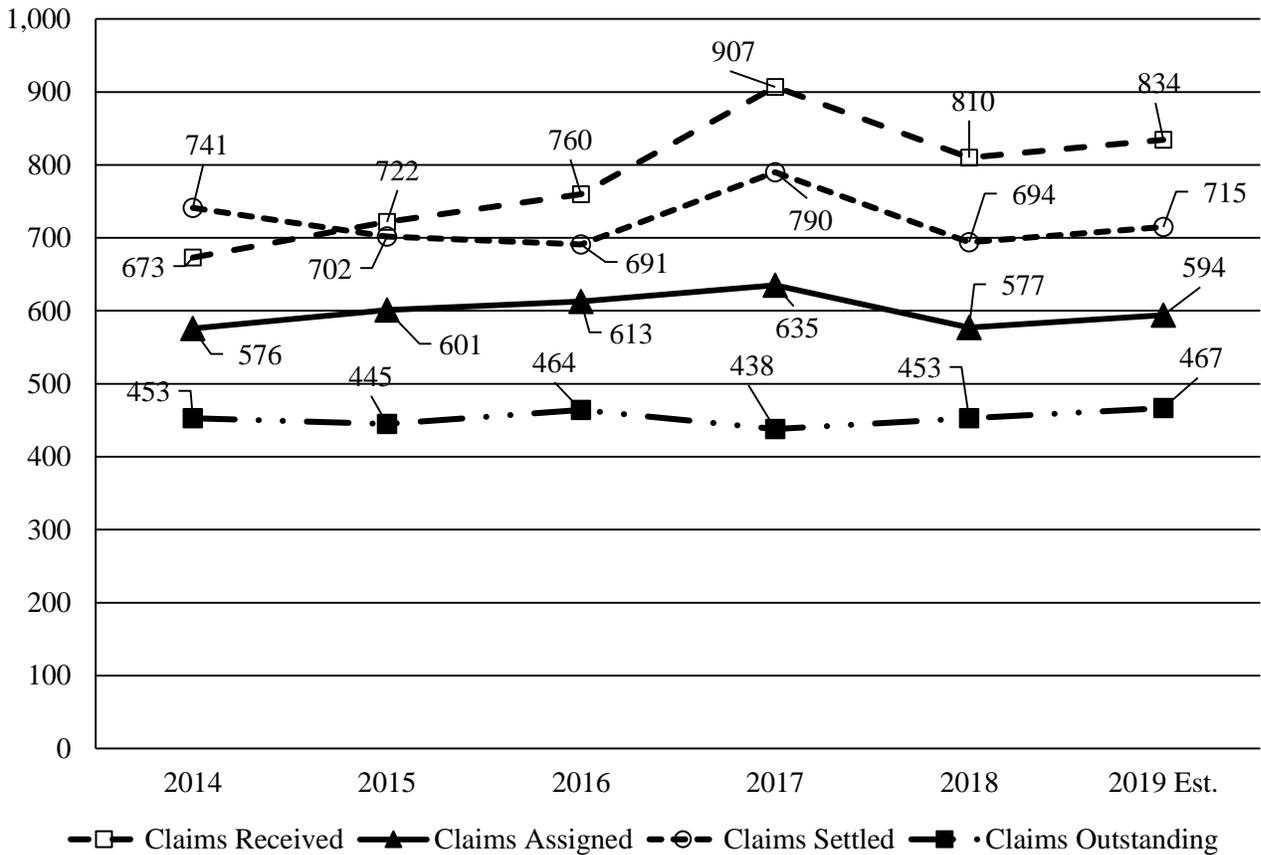
- to offer insurance to all eligible residents of the State who are unable to obtain private insurance;
- to handle claims of the policyholders and claimants in a manner that is fair, expedient, and professional; and
- to provide services efficiently to minimize the subsidy from the State's insured motorists.

Performance Analysis: Managing for Results

1. Uninsured Division's Claims Activity

Exhibit 1 shows the claims activity for Maryland Auto's Uninsured Division. Across all reported measures, estimated numbers for calendar 2019 reflect claim activity growth of approximately 3.0%. Maryland Auto does not control the number of claims received and assigned in the Uninsured Division. Claims assigned are a function of the eligible claims received. Maryland Auto states that the frequency of the uninsured claims is increasing across the industry and that the volume of claims managed by the Uninsured Division is influenced generally by public awareness of the program.

**Exhibit 1
Claims Activity
Uninsured Division
Calendar 2014-2019 Est.**

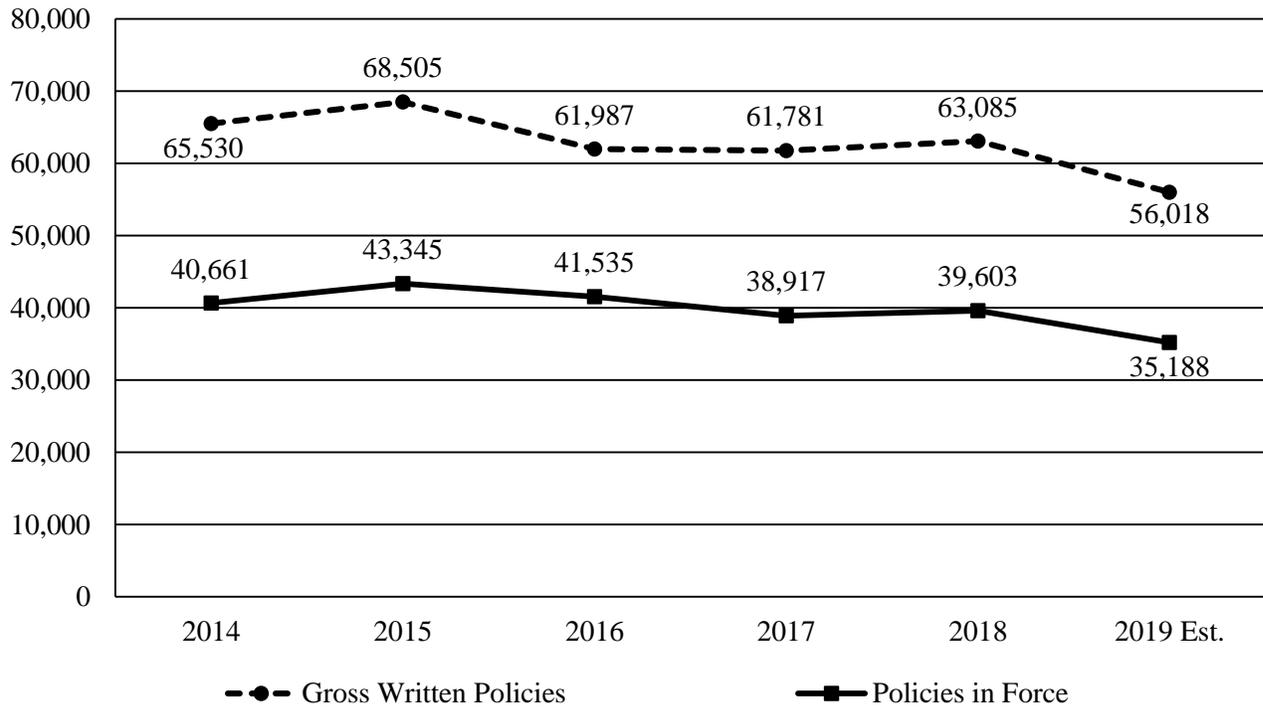


Source: Maryland Automobile Insurance Fund

2. Insured Division’s Policies and Claims Decrease

As shown in **Exhibit 2**, the number of gross written policies in the Insured Division saw a dramatic decrease to a projected 56,018 in calendar 2019 from 63,085 in calendar 2018. There were an estimated 35,188 policies in force in calendar 2019, down 11.15% from calendar 2018, which closed with 39,603 policies in force. Maryland Auto believes that this is due to changes in insurance industry underwriting practices regarding “selectively picking up” the potential lower-risk policy holders traditionally insured by Maryland Auto.

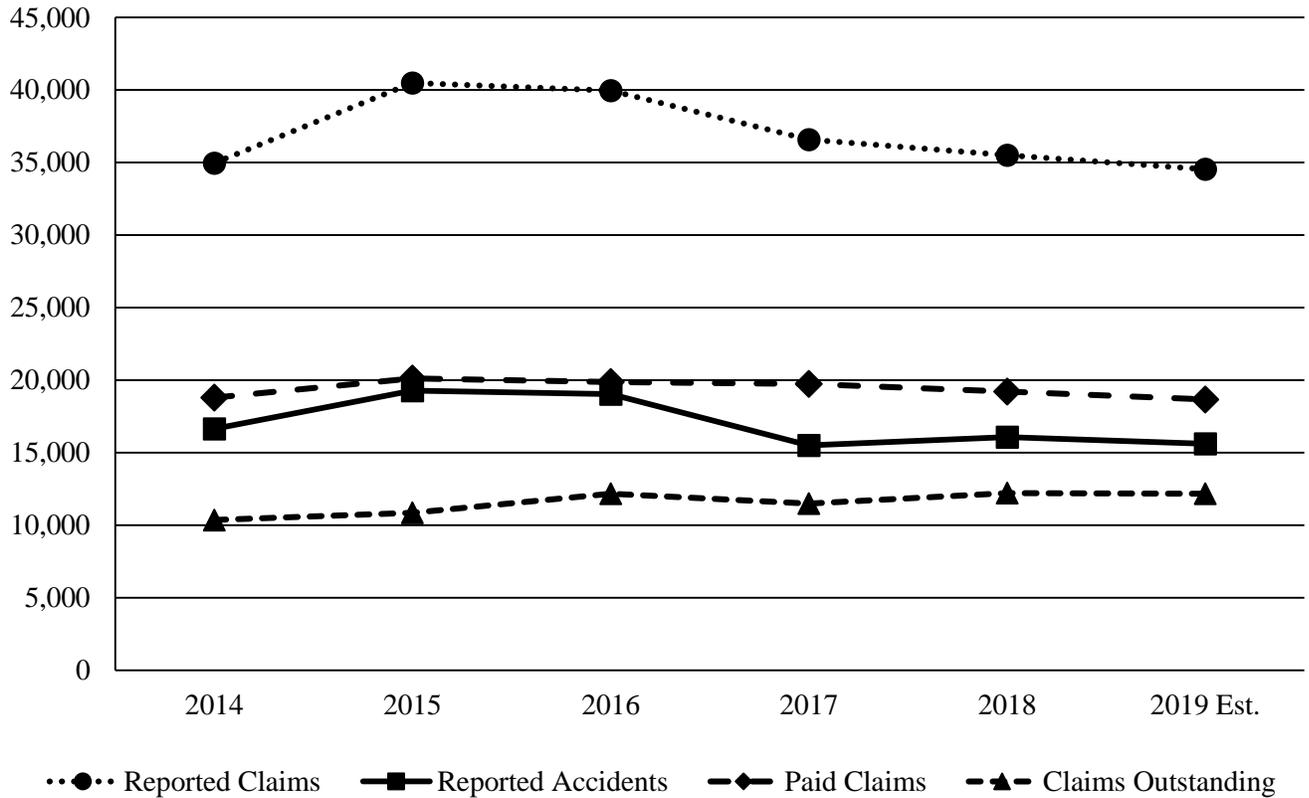
**Exhibit 2
Policies
Insured Division
Calendar 2014-2019 Est.**



Source: Maryland Automobile Insurance Fund

Exhibit 3 shows the claims activity for the Insured Division from calendar 2014 through the estimated final numbers for calendar 2019. Reported claims and accidents both decreased in the estimated 2019 numbers compared to calendar 2018. This trend also holds for paid claims and claims outstanding, both falling in calendar 2019 estimated numbers relative to the previous year.

**Exhibit 3
Claims Activity
Insured Division
Calendar 2014-2019 Est.**



Source: Maryland Automobile Insurance Fund

Calendar 2020 Budget

As shown in **Exhibit 4**, the proposed budget for Maryland Auto in calendar 2020 is expected to increase by \$101,836 over the projected calendar 2019 spending. However, because the calendar 2019 numbers have not yet been finalized, these numbers are subject to change.

Exhibit 4
Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

	<u>Insured Division</u>	<u>Uninsured Division</u>	<u>Nonbudgeted Fund Total</u>
Calendar 2019 Estimated	\$26,858	\$6,290	\$33,148
Calendar 2020 Proposed Budget	<u>28,293</u>	<u>4,957</u>	<u>33,250</u>
Calendar 2019-2020 Amount Change	\$1,435	-\$1,333	\$102
Calendar 2019-2020 Percent Change	5.3%	-21.2%	0.3%

Where It Goes:	<u>Change</u>
Personnel Expenses	
<i>Insured Division</i>	
Increases in salaries associated with 3% merit increase.....	\$356
Related expenses	269
<i>Uninsured Division</i>	
Related expenses	-40
Decrease in salaries due to winding down of the Fine Fix Amnesty program.....	-196
<i>Combined Expenses</i>	
Other personnel expenses.....	-28
Other Changes	
<i>Insured Division</i>	
Increases in the use of contractual positions	508
Purchase of computer software/equipment and maintenance.....	323
Increases due to assumption of full payout of incentive compensation	106
Commercial reporting services.....	-22
Decreases in outsourcing costs due to creation of in-house “First Notice of Loss” unit....	-261
<i>Uninsured Division</i>	
Bank service charges	18
Media.....	6
Management studies and consultants	-50
Decreasing technical services costs associated with winding down of the Fine Fix Amnesty program.....	-162
Decreasing CCU costs associated with winding down of the Fine Fix Amnesty program....	-364
Decreasing postage costs associated with winding down of the Fine Fix Amnesty program...	-455
<i>Combined Expenses</i>	
Other changes	93
Total	\$102

CCU: Central Collection Unit

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis. Numbers may not sum due to rounding.

Personnel Expenses

In calendar 2020, personnel expenses in the Insured Division are projected to increase by \$598,920, which is primarily due to a 3% merit salary increase. In the Uninsured Division, the personnel expenses are projected to decrease by \$236,692. This decrease is caused by lower allocation of personnel resources due to the winding down of the Fine Fix Amnesty program. This nets to projected calendar 2020 personnel expenses growth of \$362,228 for Maryland Auto.

Savings Due to Premium Tax Exemption

Under Maryland law, insurance companies are assessed a 2% tax on all automobile insurance premiums paid in the State. Under Chapter 509 of 2017, Maryland Auto is exempt from paying the aforementioned premium tax from the period from January 1, 2018, through June 30, 2022. Maryland Auto projects that this will result in savings of approximately \$1.6 million in calendar 2020.

Insured Division Financial Statement

Exhibit 5 presents the financial statement for the Insured Division of Maryland Auto. In calendar 2020, the Insured Division's income is projected to decrease by approximately \$6.6 million compared to calendar 2019 due to both dramatically falling earned premium income and investment income.

Total expenditures are projected to decrease by \$2.3 million in calendar 2020 versus 2019. The Insured Division is projected to have a net operating loss of \$9.7 million in calendar 2020. This would lead to an estimated ending surplus of approximately \$27.7 million in calendar 2020, down from \$37.3 million in calendar 2019. The estimated calendar 2020 surplus is only 1.29 times the estimated assessment threshold of \$21,460,444. **Maryland Auto should comment on the financial health of the Insured Division and the likelihood of imposing an assessment in the future and the impact that the assessment would have on the automobile insurance premiums of Marylanders.**

Exhibit 5
Maryland Automobile Insurance Fund
Insured Division Financial Statement
Calendar 2018-2020

	<u>Actual 2018</u>	<u>Projected 2019</u>	<u>Estimated 2020</u>
Earned Premium	\$89,731,871	\$88,146,380	\$82,974,154
Investment Income	5,449,633	4,604,614	3,204,186
Other Income	103,680	143,033	143,033
Income	\$95,285,184	\$92,894,028	\$86,321,374
Claims Incurred	\$67,690,125	\$59,059,823	\$55,726,464
Claim Expenses Incurred	19,758,454	20,094,847	20,382,737
Other Expenses	21,224,059	19,143,478	19,869,919
Expenditures	\$108,672,639	\$98,298,148	\$95,979,120
Net Gain (Loss)	-\$13,387,455	-\$5,404,120	-\$9,657,746
Beginning Surplus	\$57,488,673	\$35,631,014	\$37,344,299
Net Income	-13,387,455	-5,404,120	-9,657,746
Change in Unrealized Gains (Losses)	-8,807,397	7,021,976	
Change to Nonadmitted Assets	325,967	95,429	
Release of Overrecoupment	11,226		
Ending Surplus	\$35,631,014	\$37,344,299	\$27,686,553
Assessment Threshold	\$21,373,037	\$21,828,618	\$21,460,444
Ratio of Surplus to Assessment Threshold	1.67	1.71	1.29

* The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2019 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

Uninsured Division Financial Statement

Exhibit 6 presents the financial statement for the Uninsured Division of Maryland Auto. The Uninsured Division's largest source of income is revenue received from the Motor Vehicle Administration (MVA) uninsured motorist fine per Transportation Article § 17-106. Maryland Auto's share in calendar 2020 is projected to be \$4.1 million. Although calendar 2020 is currently projected to close with a small deficit, the \$45,451 shortfall could be managed by a Maryland Auto review of

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funding needs for the Uninsured Division. If projected deficits appear to be a long-term concern, the agency could ask MVA for additional revenue for the Uninsured Division if necessary.

Exhibit 6
Maryland Automobile Insurance Fund
Uninsured Division Financial Statement
Calendar 2018-2020 Estimated

	<u>Actual 2018</u>	<u>Projected 2019</u>	<u>Estimated 2020</u>
MVA Fines	\$3,880,319	\$3,958,344	\$4,077,094
Collections on Notes and Judgments	876,626	846,156	825,000
Investment Income	68,212	124,909	124,909
Other Income		58,957	58,957
MVA Amnesty Program		3,261,680	1,118,887
Income	\$4,825,156	\$8,250,047	\$6,204,848
Claims Incurred	\$884,989	\$1,897,123	\$1,916,094
Claims Expenses Incurred	395,092	886,609	1,179,252
Collection Expenses	452,798	734,985	928,994
Administrative Expenses	2,605,084	1,595,450	2,408,809
MVA Amnesty Program		3,454,693	816,312
Expenditures	\$4,337,962	\$8,568,861	\$7,249,461
Net Gain (Loss)	\$487,194	-\$318,814	-\$1,044,613
Beginning Surplus	\$851,832	\$1,323,686	\$999,162
Net Income	487,194	-318,814	-1,044,613
Unrealized Gain (Losses)	-15,340	-5,710	
Ending Surplus	\$1,323,686	\$999,162	-\$45,451

MVA: Motor Vehicle Administration

Note: The Maryland Automobile Insurance Fund reports its financial statements by calendar year in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2019 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

Active Vehicle Analysis

Exhibit 7 provides information on the geographic distribution of vehicles insured by Maryland Auto. Prince George’s County has the highest share of the vehicles insured by Maryland Auto at 43.7% in calendar 2019. Montgomery and Howard counties collectively come in second with 25.3% in calendar 2019.

Exhibit 7
Active Vehicle Analysis
Insured Division
Calendar 2016-2019

<u>Territory</u>	<u>2016</u>	<u>% Dist.</u>	<u>2017</u>	<u>% Dist.</u>	<u>2018</u>	<u>% Dist.</u>	<u>Proj.</u>	<u>2019</u>	<u>% Dist.</u>
Baltimore Metropolitan Area	4,996	12.1%	4,788	11.3%	4,542	10.4%	4,227	10.6%	
Northeastern Maryland	2,816	6.8%	2,756	6.5%	2,576	5.9%	2,181	5.5%	
Eastern Shore	3,530	8.6%	3,480	8.2%	2,965	6.8%	2,484	6.2%	
Southern Maryland and Anne Arundel County	3,331	8.1%	3,218	7.6%	3,088	7.1%	2,605	6.5%	
Western Maryland	812	2.0%	867	2.0%	910	2.1%	873	2.2%	
Montgomery and Howard Counties	10,524	25.5%	10,916	25.8%	11,130	25.4%	10,086	25.3%	
Prince George’s County	15,255	37.0%	16,286	38.5%	18,555	42.4%	17,446	43.7%	
Total Vehicles	41,264	100.0%	42,311	100.0%	43,766	100.0%	39,902	100%	

Note: Projected 2019 has actuals through September 30, 2019.

Source: Maryland Automobile Insurance Fund

Issues

1. Assessment Threshold

Maryland Auto is required to assess a surcharge on the Maryland automobile insurance industry that may be passed on to the policyholders of these companies after the following two triggers occur: (1) the surplus of the Insured Division falls below 25% of the three-year average of direct written premiums; and (2) Maryland Auto experiences an operating loss. The last assessment occurred in 1989.

As shown in **Exhibit 8**, the assessment threshold is projected to stand at \$21,460,444 in calendar 2020, while the ending surplus of 2020 is projected at \$27,686,553. This would be a surplus to the assessment threshold ratio of 1.29, which is a decline from the 1.71 projected ratio in calendar 2019. This falling ratio indicates that Maryland Auto is moving closer to triggering an assessment.

Exhibit 8
Maryland Automobile Insurance Fund
Calendar 2018-2020 Projected

	2018 <u>Actual</u>	2019 <u>Projected</u>	2020 <u>Projected</u>
Ending Surplus	\$35,631,014	\$37,344,299	\$27,686,553
Assessment Threshold	21,373,037	21,828,618	21,460,444
Ratio of Surplus to Assessment Threshold	1.67	1.71	1.29

Note: The Maryland Automobile Insurance Fund reports its financial statements by calendar year in accordance with State regulations for insurance companies. Calendar 2019 numbers are projected actuals; final numbers should be available in early 2020.

Source: Maryland Automobile Insurance Fund

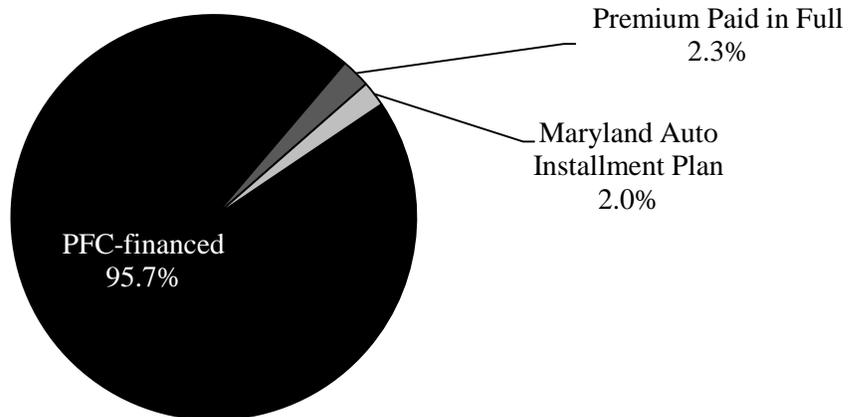
By law, insurance companies are assessed a 2% tax on all premiums paid in the State. Chapter 509 made a number of changes to Maryland Auto’s operations. Among them is an exemption from paying the premium tax for the period from January 1, 2018, through June 30, 2022. Maryland Auto estimates that this resulted in \$1.7 million in savings during calendar year 2019. **Maryland Auto should comment on whether the extension of the premium tax exemption would help to avoid triggering an assessment.**

2. Installment Plan Subscription Rate Remains Low

As a result of Chapter 334, Maryland Auto was authorized to begin accepting installment payment plans beginning October 1, 2013. Previously, Maryland Auto had required either payment of a full year’s plan or the acceptance of a loan agreement through a premium finance company (PFC). Current law allows for four different payment plans depending on the cost of the annual premium. If the total annual premium is less than \$3,000, policyholders have the option to pay a 25% down payment and then pay the balance over either three or six payments. For policies that have a total annual cost of \$3,000 or more, policyholders have the option to pay a 20% down payment and pay the balance in either four or eight installments.

Exhibit 9 shows the breakdown between PFC-financed premiums, paid in full, and the installment payment plan. The number of Maryland Auto customers who choose to use the installment plan accounts for 2% of the policies issued by Maryland Auto. Additionally, only 2.3% of customers pay their premium in full; the remaining 95.7% use the services of PFCs.

Exhibit 9
Insured Division Policies Issued
Calendar 2013-2019



PFC: premium finance company

Note: Data for policies issued October 1, 2013, to December 31, 2019.

Source: Maryland Automobile Insurance Fund

High Down Payment Likely Cause of Low Utilization

Maryland Auto believes that the high down payment required by statute discourages use of the installment plan option, particularly among low-income drivers. The typical plan offered by PFCs in the State requires a down payment of between 10% and 12%. However, while PFCs can offer a lower down payment, users are required to pay interest on the agreement as a service cost for the loan of the premium. This rate is statutorily capped at 1.15% for each 30-day period of the loan per § 23-304 of the Insurance Article. Therefore, policyholders are subject to additional fees that can total hundreds of dollars that are not assessed under a Maryland Auto installment plan. **Maryland Auto should comment on whether a lower down payment coupled with monthly service fees would be more attractive to its policyholders and the impact that this might have on utilization of installment payment plans. In addition, the agency should discuss its outreach efforts to inform potential policyholders of the benefit of utilizing Maryland Auto installment plans versus PFC-financed loans.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Report on the Likelihood and Impact of a Maryland Automobile Insurance Fund Assessment: The Maryland Automobile Insurance Fund (Maryland Auto) is required to assess a surcharge on automobile insurance companies in the state after the following two triggers occur: (1) the surplus of the Insured Division falls below 25% of the three-year average of direct written premiums; and (2) Maryland Auto experiences an operating loss. The surplus to assessment ratio is estimated to stand at 1.29 at the end of calendar 2019. Due to the concern that an assessment on automobile insurance companies would be passed through to Marylanders, the committees request that Maryland Auto and the Maryland Insurance Administration (MIA) prepare a report on the likelihood of an assessment and the impact that it would have on the price of automobile insurance premiums in Maryland. The report should include projections on the likelihood of an assessment during calendar 2020 through 2025. The report should also note the impacts of the expiration of the Maryland Auto premium tax exemption in 2022 and the impact of declining investment revenue in the event of a market slowdown. Additionally, the report should include information on potential legislative initiatives that would address this issue. The report shall be provided to the budget committees by October 1, 2020.

Information Request	Authors	Due Date
Report on the likelihood and impact of a Maryland Auto assessment	Maryland Auto MIA	October 1, 2020

**Appendix 1
Object/Fund Difference Report
Maryland Automobile Insurance Fund**

<u>Object/Fund</u>	<u>CY 18 Actual</u>	<u>CY 19 Working Projected</u>	<u>CY 20 Estimate</u>	<u>CY 19 - 20 Amount Change</u>	<u>Percent Change</u>
Objects					
01 Salaries and Wages	\$19,856,012	\$19,081,786	\$19,680,706	\$598,920	3.1%
02 Technical and Special Fees	\$4,982,411	\$5,127,239	\$5,544,863	\$417,624	8.1%
03 Communication	\$572,445	\$600,763	\$612,360	\$11,597	1.9%
04 Travel	\$85,615	\$81,285	\$127,132	\$45,847	56.4%
06 Fuel and Utilities	\$139,816	\$122,937	\$115,425	(\$7,512)	-6.1%
07 Motor Vehicles	\$168,925	\$169,543	\$181,555	\$12,012	7.1%
08 Contractual Services	\$1,467,246	\$1,271,526	\$1,208,786	(\$62,740)	-4.9%
09 Supplies and Materials	\$109,094	\$98,466	\$107,138	\$8,672	8.8%
11 Equipment – Additional	\$64,420	\$118,484	\$522,709	\$404,225	341.2%
13 Fixed Charges	\$197,448	\$186,332	\$192,333	\$6,001	3.2%
14 Land and Structures		-	-	-	-
Total Objects	\$27,643,432	\$26,858,361	\$28,293,007	\$1,434,646	5.3%
Funds					
07 Nonbudgeted Fund	\$27,643,432	\$26,858,361	\$28,293,007	\$1,434,646	5.3%
Total Funds	\$27,643,432	\$26,858,361	\$28,293,007	\$1,434,646	5.3%

Note: Projected 2019 has actuals through 9/30/2019.

**Appendix 2
Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Program/Unit</u>	<u>CY 18 Actual</u>	<u>CY 19 Projected</u>	<u>CY 20 Estimate</u>	<u>Change</u>	<u>CY 19 - CY 20 % Change</u>
42 Insured Division	\$27,643,432	\$26,858,361	\$28,293,007	\$1,434,646	5.3%
47 Uninsured Division	3,519,303	6,289,836	4,957,027	(\$1,332,809)	-21.2%
Total Expenditures	\$31,162,735	\$33,148,197	\$33,250,034	\$101,837	0.3%
Nonbudgeted Fund	\$31,162,735	\$33,148,197	\$33,250,034	\$101,837	0.3%
Total Appropriations	\$31,162,735	\$33,148,197	\$33,250,034	\$101,837	0.3%

Note: Projected 2019 has actuals through September 30, 2019.