D80Z01
Maryland Insurance Administration

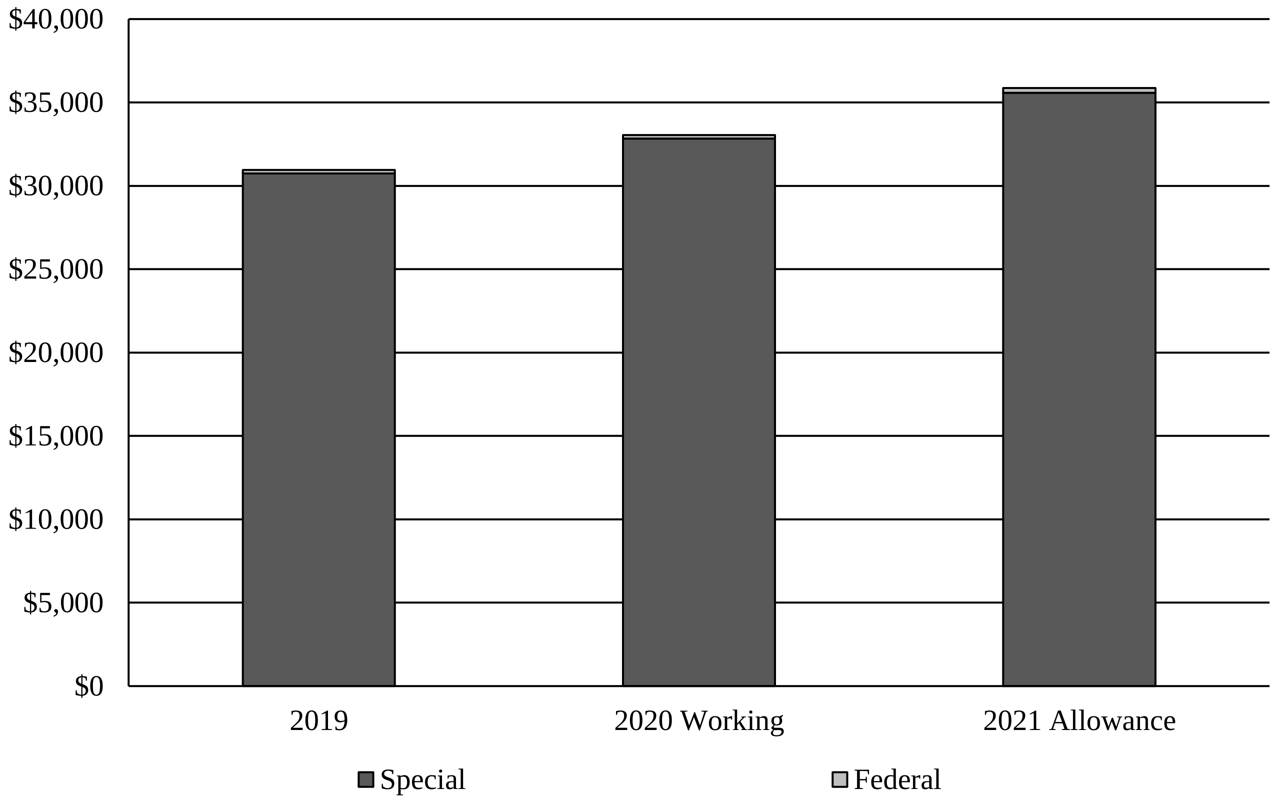
Program Description

The Maryland Insurance Administration (MIA) implements laws and develops policies, procedures, and regulations that affect Maryland's insurance industry. MIA performs rate and form review, financial audits, licensing examinations, market conduct examinations, and fraud investigations. It also resolves consumer complaints and issues licenses to companies and producers.

MIA is a special funded State agency supported entirely through fees and assessments on the insurance industry. Up to 60% of MIA's annual appropriation may be funded by assessments on the insurance industry with the remainder coming from fees.

Operating Budget Summary

Budget Increases by $2.8 Million or 8.5% to $35.9 Million in Fiscal 2021
($ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

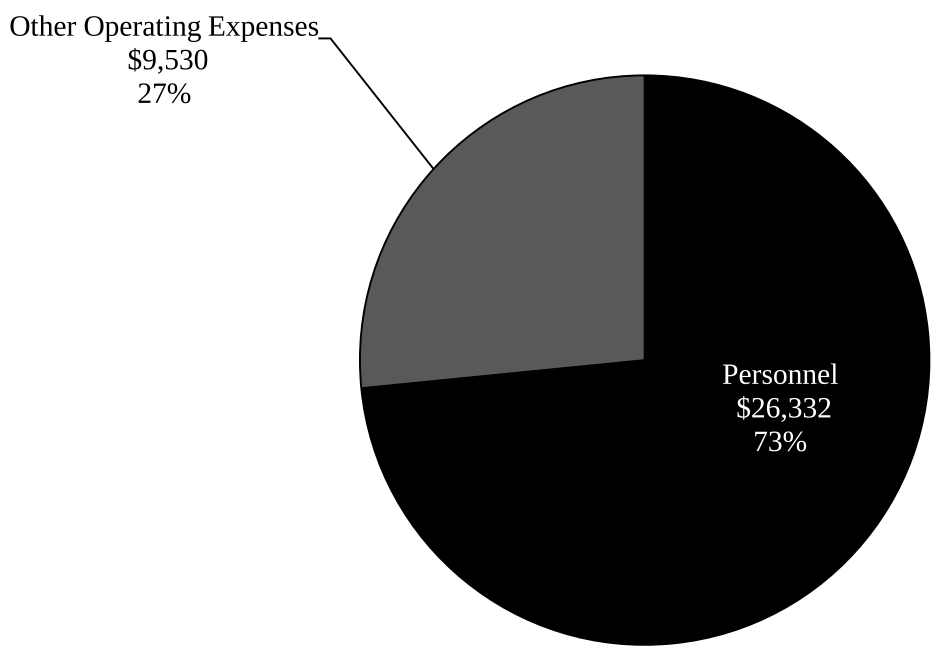
For further information contact: Caleb E. Weiss Phone: (410) 946-5530

- The $2.8 million increase in the fiscal 2021 allowance from the fiscal 2020 working appropriation is largely driven by increased personnel expenses and $2 million in increased expenses for the legacy systems replacement information technology (IT) project.

Fiscal 2021 Overview of Agency Spending

The fiscal 2021 allowance is approximately $35.9 million. As shown in **Exhibit 1**, this is comprised of about $26.3 million in personnel expenses and $9.5 million in other operating expenses.

Exhibit 1
Overview of Agency Spending
Fiscal 2021 Allowance
($ in Thousands)



Source: Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2021 allowance increases by $2.8 million over the fiscal 2020 working appropriation. This is primarily driven by a $1.1 million increase in personnel expenses and a $2 million increase for the replacement of the agency's legacy IT system.

Exhibit 2
Proposed Budget
Maryland Insurance Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2019 Actual	$30,741	$203	$30,944
Fiscal 2020 Working Appropriation	32,825	224	33,048
Fiscal 2021 Allowance	35,578	284	35,862
Fiscal 2020-2021 Amount Change	$2,753	$61	$2,814
Fiscal 2020-2021 Percent Change	8.4%	27.1%	8.5%

Where It Goes:	Change
Personnel Expenses	
Reclassifications and salary increases	$419
Employees' retirement system	295
Fiscal 2021 salary increase	209
Health insurance	122
Net annualization of fiscal 2020 general salary increase	100
Workers' compensation	84
Social Security contributions	30
Unemployment compensation	1
Retiree health insurance premiums	-49
Turnover adjustments	-132
Other Changes	
Legacy software system replacement project	2,000
Contracts unrelated to data processing costs	227
Increase in attorney fees and the number of administrative hearings	184
Department of Information Technology services allocation	-79
Other adjustments	-84
Decreases in cost of maintaining servers and applications due to recent investments	-514
Total	**$2,814**

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

Legacy System Replacement

The $2.0 million included in the fiscal 2021 allowance for the replacement of the existing Enterprise System reflects the first year of funding for the $2.3 million project. The project is budgeted in fiscal 2021 through 2023. MIA has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s. The current system requires manual data entry of company demographic data by MIA rather than allowing insurance companies to maintain their contact and address information electronically. Additionally, the current system does not provide the ability to store or manage documents submitted by insurance companies as part of the licensing process. Company documents are submitted to MIA in hard copy or via email and then scanned and stored electronically on MIA network file shares without a link or connection to the company data stored in the enterprise system. In addition, MIA currently prints hard copy licenses and mails them to insurance companies rather than issuing licenses electronically. The replacement of this system is designed to correct these shortcomings and better serve the needs of MIA.

Personnel Data

	FY 19 Actual	FY 20 Working	FY 21 Allowance	FY 20-21 Change
Regular Positions	259.00	259.00	259.00	0.00
Contractual FTEs	16.21	20.10	19.60	-0.50
Total Personnel	**275.21**	**279.10**	**278.60**	**-0.50**

Vacancy Data: Regular Positions

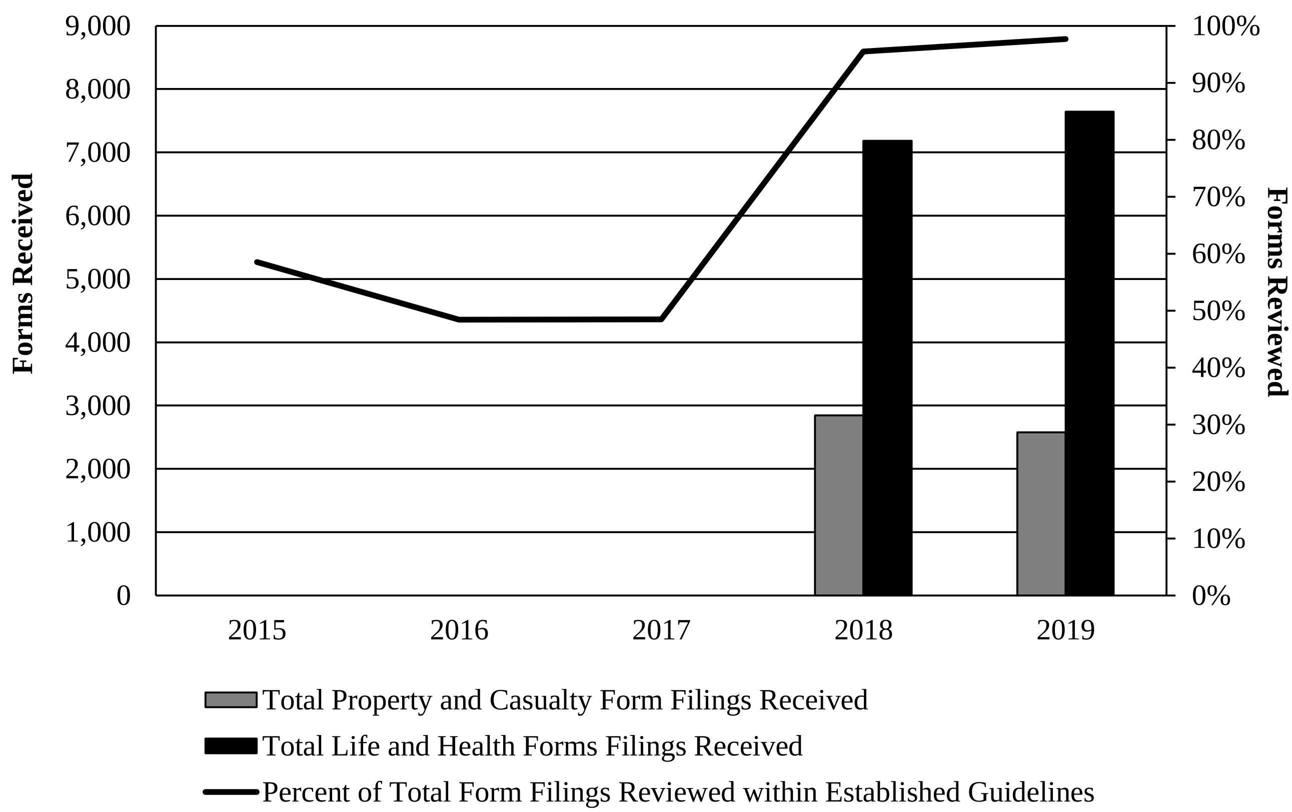
Turnover and Necessary Vacancies, Excluding New Positions	15.88	6.13%
Positions and Percentage Vacant as of 12/31/19	24.00	9.27%
Vacancies Above Turnover	8.12	3.14%

Key Observations

1. Form Filings

MIA conducts a review of every insurance policy and contract to ensure that all of the legal requirements for the policy and/or contract have been met. MIA also reviews and approves rates for most life and health, and property and casualty insurance products. As shown in **Exhibit 3**, the number of form filings for property and casualty insurance have declined, while those for life and health insurance have increased slightly. The agency continued to outperform previous years, when a significant backlog existed, by reviewing nearly 98% of form filings within established guidelines in fiscal 2019. It is important to note that the fiscal 2015 to 2017 numbers for both total property and casualty and total life and health form filings received have been excluded because changes to the way those metrics were measured by MIA made comparisons before 2018 inaccurate.

Exhibit 3
Form Filings Received and Reviewed
Fiscal 2015-2019

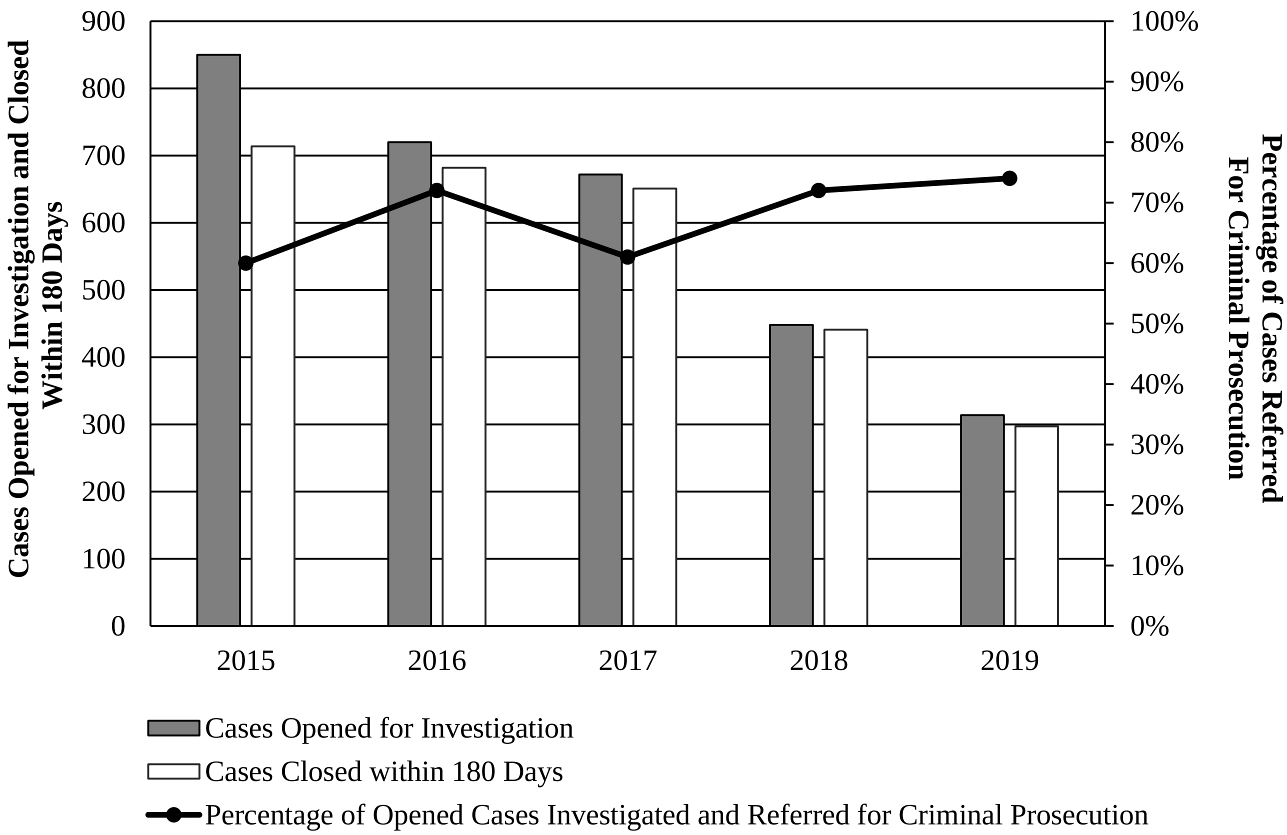


Source: Maryland Insurance Administration

2. Fraud Division

The Insurance Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud. **Exhibit 4** demonstrates the number of fraud cases opened, the number of cases closed within 180 days, and the percentage of cases referred for criminal prosecution. There was a decrease in the number of cases opened in fiscal 2019, but the vast majority of the opened cases are closed within 180 days (95%). While there have been fewer cases opened, there has been an increase in the percentage of cases referred for criminal prosecution (74%).

Exhibit 4
Fraud Cases Opened, Closed within 180 Days, and Referred for Criminal Prosecution
Fiscal 2015-2019



Source: Maryland Insurance Administration

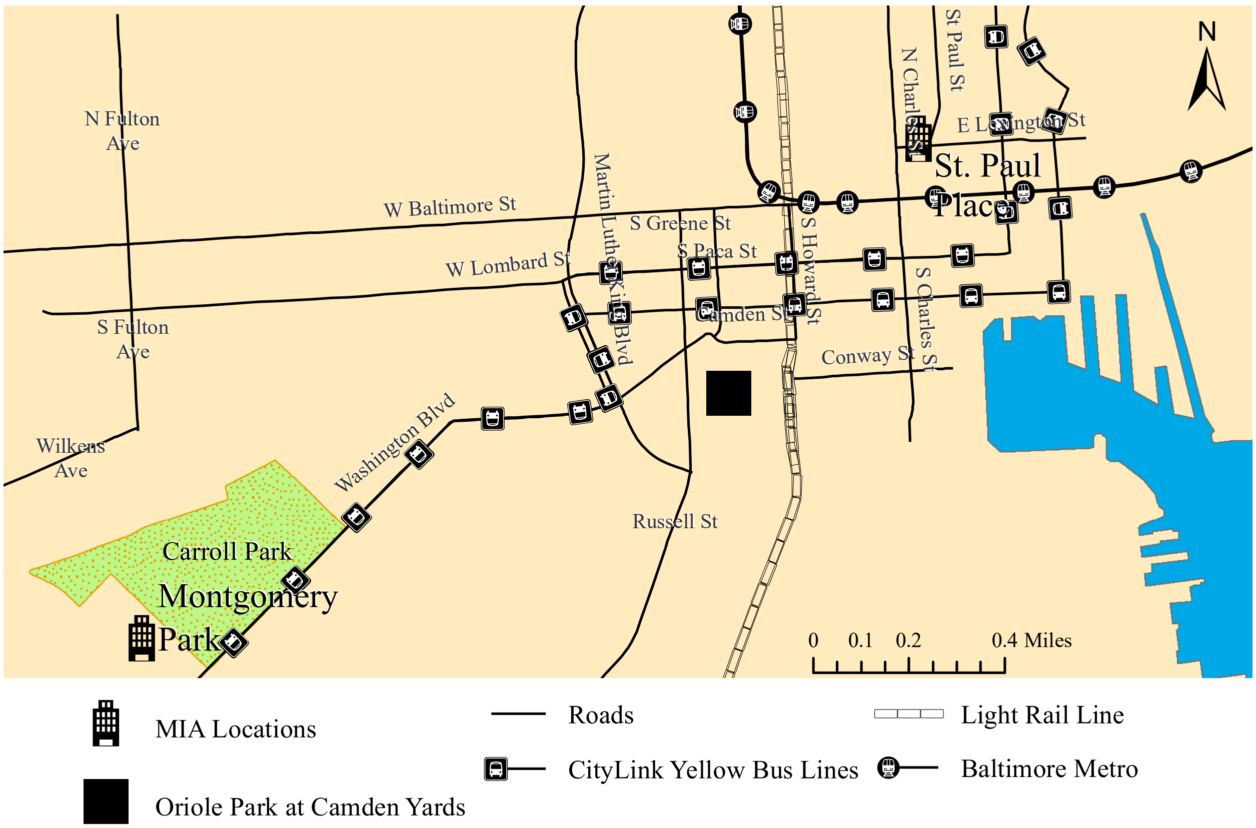
3. MIA's Lease Extension with St. Paul Office Tower

On January 8, 2020, the Board of Public Works approved a sole source lease for MIA to continue to lease 68,771 square feet of office space at 200 St. Paul Place in Baltimore City. MIA has been at this location since 2009. The average annual cost of the lease is $1.7 million. This is a 10-year lease with a standard six-month holdover. The previous lease expired on May 2, 2019, and the holdover expired on November 2, 2019. The Department of General Services (DGS) advises that the owner of the building could require MIA to pay double the lease payments after the expiration of the lease if the lease is not renewed. DGS also advises that they expected the owner of the lease, The Kornblatt Co., to invoke this provision if the State did not execute this new lease.

MIA Lease Procurement

In August 2017, almost two years before the 2009 lease expired, DGS issued a Request for Proposals (RFP) seeking office space for MIA. After evaluating the proposals, DGS notified Montgomery Park that it was the recommended awardee of the procurement. During the negotiation period, the DGS procurement officer became aware that MIA had concerns regarding the location of Montgomery Park. DGS determined that MIA's concerns were legitimate and canceled the RFP. Since Montgomery Park's lease is the lowest bid, moving there would reduce MIA costs. However, the parties are disputing how much is saved and how much it costs to move MIA to Montgomery Park. **Exhibit 5** shows the location of 200 St. Paul Place and Montgomery Park.

Exhibit 5
Map of 200 St. Paul Place and Montgomery Park
January 2020



MIA: Maryland Insurance Administration

Source: Baltimore City, MD iMAP; Department of Legislative Services

Montgomery Park's Owner Files Protests

Himmelrich Associates Inc., the owner of Montgomery Park, protested the cancellation of the lease in April 2019. In its protest, Himmelrich asserts that the decision to cancel the RFP is arbitrary and capricious, lacks a rational basis, and is unreasonable by not containing a determination by DGS that the cancellation was fiscally advantageous. DGS has denied the protest. Himmelrich then appealed to the Maryland State Board of Contract Appeals (MSBCA).

Himmelrich Associates filed a second protest with DGS that faults DGS for failing to obtain a justification from MIA for considering only St. Paul Plaza for the renewal lease, failing to advertise the "sole source" solicitation, and failing to solicit offers from prospective offerors, including Montgomery Park. DGS denied this protest on its merits, and Montgomery Park has not appealed.

A third protest was filed in September 2019. Himmelrich asserts in this protest that DGS violated State regulations by negotiating the renewal lease without having determined that doing so was in the best interests of the State. In addition, Himmelrich challenges any subsequent finding that it is in the State's best interest to negotiate the renewal lease and that it will be in the State's best interest to execute the renewal lease. DGS has denied this protest, and Himmelrich has appealed to MSBCA.

MSBCA Ruling

On January 29, 2020, MSBCA ruled on the appeals filed by Himmelrich, the owners of Montgomery Park. With respect to the reasonableness of the procurement officer's (PO) determination to cancel the Montgomery Park lease, MSBCA examined the following complaints and concluded:

- ***"The justification for the request has changed and is no longer valid."*** The claim was made by MIA that parking became less critical after Montgomery Park was identified as the awardee. There were concerns that Montgomery Park "is not directly accessible by multiple city bus routes, regional commuter buses, Metro and Light Rail." However, the proposal included customized shuttle service provided for MIA employees. MIA asserted that "60% of MIA employees use public transportation to commute to/from work." MSBCA found that "no credible evidence was admitted to support the employee's transportation and parking needs had indeed changed."

- ***"Employee retention will be significantly adversely impacted."*** The MIA asserted that "its relocation to [Montgomery Park] will result in the departure of experienced regulatory staff with the specialized insurance-related knowledge and expertise needed to perform [MIA's] regulatory functions." The PO took no affirmative steps to obtain and examine relevant data to verify this. Also, if this were the case, "the possibility of a negative impact on employee retention was an issue that should have been known to DGS and factored into the evaluation process before selecting a vendor for award." MSBCA found that the "PO could not reasonably conclude that cancelling the solicitation was in the best interest of the State when she failed to investigate or verify the extent of the asserted impact on MIA's employee retention and failed to investigate whether the impact on MIA's employee retention was any more significant than the impact that normally occurs when any agency moves."

- ***"The interruption of MIA operations and regulation of Maryland's insurance industry will hurt Maryland consumers and businesses."*** MSBCA notes that this "was also an impact (if true) that should have been known and factored into the evaluation process when selecting Montgomery Park for award. The PO did not investigate the accuracy of this assertion. Neither DGS nor MIA "articulated any specific adverse impact that the relocation to Montgomery Park would have upon the regulation of the insurance industry."

- ***"Insurance companies doing business in Maryland have opposed the move on the basis that it will be the second time in 10 years that these companies must fund the MIA's relocation."*** MIA's budget is funded by the insurance industry.[1] The PO was unaware of this when preparing the RFP. The PO became aware of this through a letter from MIA on April 23, 2019. The "PO testified that 'the determining factor' in her decision to cancel the solicitation was that the insurance companies would be required to pay the moving costs up front via a special assessment spread out over market share." Yet this is not noted in the written determination as the basis for the cancellation of the procurement. MSBCA notes that, based solely on the unverified assertions of the MIA letter, the PO "abruptly determined that it was in the State's best interest to cancel the solicitation … the same day that she was told that the MIA was fully funded by the insurance companies, and the same day that she was told that the insurance companies would be required to pay the moving costs up front as a special assessment."

MSBCA concluded that the State did not investigate and determine whether the facts and relevant data adequately support MIA's concerns, and the State did not weigh all the advantages and disadvantages to the State of canceling this solicitation before making a determination that canceling it was in the State's best interest.

MIA should be prepared to brief the budget committees on the MSBCA ruling. This should include what the next steps are with respect to the 200 St. Paul St. and Montgomery Park leases.

[1] MSBCA also notes that DGS's highest estimate for relocation expenses was $1,237,068; its lowest was $71,729. There is no evidence admitted regarding the number of insurance companies over which this cost would be spread as an up-front special assessment The PO nevertheless conceded that the moving costs were significantly lower than the $3,337,052 that DGS estimated in net savings in rent over the life of the 10-year lease.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
2019 *Joint Chairmen's Report* Responses from Agency

The 2019 *Joint Chairmen's Report* (JCR) requested that the Maryland Insurance Administration (MIA) prepare one report. An electronic copy of the full JCR response can be found on the Department of Legislative Services Library website.

- ***Report on Trends in Health Insurance:*** This report requested from MIA in the 2019 JCR is on the trends and changes of health insurance benefit design and actuarial value between 2013 and 2018 and the impact of these changes on utilization trends. MIA found that the average actuarial value (the percent of allowed essential health benefits that are paid by the carriers) of plans in the individual and small group markets increased between 2016 and 2018. The average medical deductible decreased slightly between 2013 and 2015 and increased steadily between 2016 and 2018 to $4,168 in 2018.

Appendix 2
Major Information Technology Project
Maryland Insurance Administration
Legacy System Replacement

New/Ongoing: New								
Start Date: 4/1/2020				**Est. Completion Date:** 3/1/2022				
Implementation Strategy: Agile								
($ in Millions)	**Prior Year**	**2020**	**2021**	**2022**	**2023**	**2024**	**Remainder**	**Total**
SF			$2.00	$0.16	$0.16			**$2.32**
Total			**$2.00**	**$0.16**	**$0.16**			**$2.32**

- ***Project Summary***: The Maryland Insurance Administration (MIA) has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s for the following business functions: company licensing; market conduct case tracking; and case tracking for hearings and orders. The new system will also include a case tracking capability for MIA fraud investigations. The new system will leverage the following modern technologies: document management; workflow; collaboration; data analysis; and data reporting.

- ***Need:*** The current system requires manual data entry of company demographic data by MIA rather than allowing insurance companies to maintain their contact and address information electronically. The current system does not provide the ability to store or manage documents submitted by insurance companies as part of the licensing process. Company documents are submitted to MIA in hard copy or via email and then scanned and stored electronically on MIA network file shares without a link or connection to the company data stored in the enterprise system. In addition, MIA currently prints hard copy licenses and mails them to insurance companies rather than issuing licenses electronically. As part of MIA's regulatory responsibilities for the insurance industry, MIA also conducts market conduct exams, holds hearings, issues orders, and researches insurance fraud cases. The current enterprise system is used to store market conduct exams, hearings, and orders in a legacy Sybase database that is difficult to query. However, the current system does not provide any case tracking functionality to support fraud investigations, causing the Fraud Unit to rely on Excel spreadsheets to store all data associated with fraud cases. Throughout the lifecycle of these regulatory functions, MIA often collects documents from consumers and insurance companies. These documents need to be electronically stored with the company and case data collected and maintained by MIA.

Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration

Object/Fund	FY 19 Actual	FY 20 Working Appropriation	FY 21 Allowance	FY 20 - FY 21 Amount Change	Percent Change
Positions					
01 Regular	259.00	259.00	259.00	0.00	0%
02 Contractual	0.00	20.10	19.60	-0.50	-2.5%
Total Positions	**259.00**	**279.10**	**278.60**	**-0.50**	**-0.2%**
Objects					
01 Salaries and Wages	$ 24,335,415	$ 25,152,538	$ 25,921,993	$ 769,455	3.1%
02 Technical and Spec. Fees	900,621	1,080,076	1,011,169	-68,907	-6.4%
03 Communication	261,906	277,758	264,951	-12,807	-4.6%
04 Travel	207,624	298,362	248,463	-49,899	-16.7%
07 Motor Vehicles	166,945	191,947	217,019	25,072	13.1%
08 Contractual Services	2,270,098	3,063,613	5,068,025	2,004,412	65.4%
09 Supplies and Materials	228,776	265,730	263,994	-1,736	-0.7%
10 Equipment – Replacement	33,389	218,752	32,693	-186,059	-85.1%
11 Equipment – Additional	132,714	1,402	1,650	248	17.7%
12 Grants, Subsidies, and Contributions	590,714	594,133	590,714	-3,419	-0.6%
13 Fixed Charges	1,815,778	1,803,598	1,831,092	27,494	1.5%
Total Objects	**$ 30,943,980**	**$ 32,947,909**	**$ 35,451,763**	**$ 2,503,854**	**7.6%**
Funds					
03 Special Fund	$ 30,741,256	$ 32,724,782	$ 35,169,373	$ 2,444,591	7.5%
05 Federal Fund	202,724	223,127	282,390	59,263	26.6%
Total Funds	**$ 30,943,980**	**$ 32,947,909**	**$ 35,451,763**	**$ 2,503,854**	**7.6%**

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.