Testimony - SB 530.pdf
Uploaded by: Al Redmer, Jr.
Position: FAV

MARYLAND
AUTO INSURANCE

POSITION ON PROPOSED LEGISLATION

Date: February 22, 2023 **Position:** **Favorable**

Bill Number: Senate Bill 530

Bill Title: Insurance – Maryland Automobile Insurance Fund – Assessments

Senate Bill 530 Review and Analysis:

For the past 20 years, Maryland Automobile Insurance Fund's (MAIF) business, measured by both policies and earned premium, has steadily declined. During this period, private insurance companies have been increasingly able and willing to write a larger portion of the Maryland market. This decline is reflected in a substantially reduced MAIF surplus.

Year	Policies in Force	Premium (millions)	Surplus (millions)
2004	122,118	$ 241.5	$ 114.0
2014	41,161	$ 75.2	$ 97.2
2020	28,709	$ 75.2	$ 54.0
2022	24,303	$ 53.3	$ 24.4
2023 (projected)	22,394	$ 59.0	$ 6.2

In most of these years, MAIF had a net loss, most recently $(20.7) million in 2022. Over this period there were no assessments. MAIF was able to avoid an assessment due to a much higher number of policies in force and premium base, which contained many moderate risk drivers, in addition to the core high risk business. This premium and policy base allowed the accumulation of a large surplus and significant investment income. The investment income was able to off-set the underwriting losses which were the result of a combined loss ratio that has been as high as 142.5% (in 2013) and has averaged 119% over the previous 20 years. Obviously, loss ratios of this magnitude are not sustainable without a significant subsidy.

Senate Bill 530 addresses this financial situation. First, Senate Bill 530 amends *Insurance Article §20-401 et seq.* which provides funding to MAIF through an assessment on insurance carriers and their policyholders. By amending the assessment statute, Senate Bill 530 will allow MAIF to directly access nearly $10 million in overpayment credits without insurers and their policyholders being charged for the assessment.

Second, Senate Bill 530 amends *Transportation Article §17-106* to alter the formula which provides funding to MAIF from the uninsured motorist penalty fines collected by the Maryland Department of Transportation Motor Vehicle Administration (MDOT MVA). By amending the Transportation Article, Senate Bill 530 will provide MAIF additional funding to assist the Uninsured Division with operations and the Insured Division with rate inadequacy to avoid or reduce an assessment on the insurance companies and their policyholders.

1. Insurance Article – Assessment Credits.
MAIF was created in 1973 as the residual insurer and is required to offer insurance to all applicants that have been turned down by two insurance companies or canceled by one. *Insurance Article §20-301*. The Legislature provided a mechanism to impose assessments on motor vehicle insurance carriers in the State, in proportion to their market share. This assessment is triggered if MAIF needs financial support, based on its statutory operating loss, net written premium and surplus at the end of the calendar year. *Insurance Article §20-404.* These assessments are grouped separately by private passenger auto and commercial auto. The last assessment was in 1989.

After paying their share of the total assessment, insurance companies are permitted to recoup the assessment from their policyholders. If an insurer recouped more than the assessment called for, the insurers receive a credit and at the next assessment, the insurance company would use the credit to surcharge its policyholders less. *Insurance Article §20-409(b).*

During 1989-1990, insurance companies were authorized to recoup the approved assessment from 1989 from its policyholders. These recoupments were separate charges on the premium bill for "MAIF Assessment" and constituted a direct pass through to individual policyholders. The assessments were not absorbed by or paid for by the insurance company.

The difficulty is that insurance companies continued to surcharge their policyholders after the entire assessment had been recouped and did not "turn off the faucet" in time. More than 100 insurance companies over recouped assessments from their policyholders resulting in current credits totaling $9.7 million (private passenger) and $478,000 (commercial). There has not been an assessment since 1989, the credits were never used, and these credits remain on the books of MAIF. These funds are in a MAIF account but cannot be used as surplus since there is a liability for the insurance company credits.

Because over 30 years have elapsed, it is no longer feasible to recognize individual insurance company credits. Companies could not possibly return the funds to the policyholders that paid the over assessment in 1989-1990. Moreover, the insurance industry has changed considerably since then and more than half of the insurance companies that have credits do not currently have any Maryland market share.

Senate Bill 530 amends *Insurance Article §20-404* to allow MAIF to access the over assessment funds, once an assessment is declared and verified by the Insurance Commissioner. For example, if a $5 million private passenger auto assessment was declared and verified by the Maryland Insurance Administration, MAIF would be authorized to use $5 million from the account and these funds would be a contribution to MAIF's surplus and the credits would no longer exist. Use of the credits in this fashion would benefit the whole industry - no insurance company would pay anything until the credits were exhausted. Insurance companies with the largest market share would get the most benefit. There would be no billing or collection from individual insurance companies until the overpayments were exhausted for private passenger auto ($9.7 million) or commercial auto ($478,000).

The amendments made to the Insurance Article in Senate Bill 530 do not have any fiscal impact on MAIF or the State. Senate Bill 530 does not change the assessment calculation or process. If an assessment is certified, MAIF will receive the amount that was certified either entirely from the over recoupment account or from a combination of the account and an assessment on the insurance industry.

Senate Bill 530 improves the assessment process considerably. It simplifies the assessment process, up to a $9.7 million (private passenger) or $478,000 (commercial) assessment and avoids time consuming and expensive collections from insurers and their policyholders. Senate Bill 530 also avoids overpayment credits in the future by providing that any overpayments be returned to the insurer and be refunded to the policyholders or used to reduce rates generally.

2. Transportation Article – Uninsured Motorist Fines.

Since 1973, MAIF's Uninsured Division has administered the State's program to provide financial recovery to qualified Maryland residents involved in automobile accidents where there is no other collectible insurance and is the primary State agency with the objective to reduce the rate of uninsured motorists. Funding is through a portion of uninsured motorist penalty fines under *Transportation Article §17-106*, collections and investment income which to date has only supported the Uninsured Division

Distribution of uninsured motorist penalty fines is subject to a funding formula under *Transportation Article §17-106* which provides that thirty percent (30%) of the total fines are allocated to the MDOT MVA. The other seventy percent (70%) is distributed to the Safe Schools Fund, Vehicle Theft Prevention Fund, MAIF, and the balance to the General Fund.

Senate Bill 530 amends *Transportation Article §17-106* to increase the funding to 20% for MAIF and leaving the other funding provisions the same. The amount is dependent on the fines collected for that year. For illustrative purposes, based on the uninsured motorist penalty fines collected in 2022, the formulas would be:

	Current Law	20% to Md. Auto	Change
Total Fines	$ 70,668,042	$ 70,668,042	-0-
MDOT MVA (30% of total)	$ 21,237,244	$ 21,237,244	-0-
MAIF (fixed amount)	$ 4,221,157	$ 14,133,608	$ 9,912,451
Safe Schools Fund (fixed amount)	$ 600,000	$ 600,000	-0-
Veh.Theft Prev. Fund (fixed amount)	$ 2,000.000	$ 2,000.000	-0-
General Fund (remainder)	$ 42,609,641	$ 32,697,190	($ 9,912,451)

Senate Bill 530 would have a positive fiscal impact on MAIF of approximately $9.9 million, depending on the total fines collected by MDOT MVA in a given year. The additional $9.9 million would be used to support the Uninsured Division operations and assist the Insured Division with rate inadequacy in regions where premiums exceed our 2.5% targeted affordability index cap.

The Uninsured Division's surplus is $1.8 million. The Uninsured Division's current projected income for 2023 is $5,153,707. This includes $4.4 million from the uninsured motorist penalty fines and $731,558 in collections. Little if any investment income is projected given current market conditions. This $5.2 million will not cover the expected expenditures of $5.7 million, resulting in a net loss and decline in surplus.

The Insured Division rates are not "adequate" to fully cover claim payments and expenses from its insurance operations. From an actuarial perspective, an "adequate" rate is a rate which fully covers the expected claim losses and expenses. MAIF cannot charge adequate rates and at the same time fulfill its statutory mission to provide affordable rates as the insurer of last resort. To close the adequacy gap would require an immediate 32% statewide rate increase, including an increase of 37.4% in Baltimore City and 29.2% in Prince Georges County. The adequacy gap based on current premiums exists in all regions of the State.

There is a substantial gap between the rates charged and the rates that are indicated to fully cover the cost of claims and expenses. Where premiums collected do not cover the full cost of claims, the difference is paid out of surplus and an ever diminishing surplus is not sustainable. MAIF will file a rate increase in the mid to high single digits in March 2023 with a May effective date which will assist with inadequacy and claims costs. Even with this rate increase, the majority of the gap will remain.

Despite offering inadequate rates, MAIF's premiums are not fully affordable. MAIF considers rates to be marginally affordable if they are generally below 2.5% of the Median Household Income in that area of the State. (The US Dept. of Treasury, Federal Office of Insurance, adopted a 2% affordability index). MAIF is able to offer generally affordable insurance in most areas of the State but not in all regions.

In order to fully cover the costs of claims while continuing to meet its goal of charging inadequate rates so that it can meet or approach the 2.5% affordability index in all jurisdictions, MAIF would need an infusion of millions annually. A portion of this number will come from the May rate increase but rates will never be fully adequate. For example, in Baltimore City, the average annual policy would have to be raised $1,034 to be fully adequate.

Senate Bill 530 would provide funding that would cover a substantial portion of the inadequacy gap and stabilize surplus. It would also allow MAIF to slow rates increases especially in the Baltimore region to diminish the affordability gap.

Without the funding provided by Senate Bill 530, MAIF would have to consider a further rate increase, exacerbating the affordability problem. A dramatic rate increase would be self-defeating as it may decrease the number of policies and the overall premiums while increasing the number of uninsured motorists.

In addition, even with rate increases, an assessment is inevitable at year end 2023. While is possible the $9.7 million in credits will cover the 2023 assessment, this result is not guaranteed. If MAIF's forecast is even slightly off, an assessment exceeding $9.7 could occur, resulting in an assessment on the insurance companies and their Maryland policyholders. This would be avoided by the passage of Senate Bill 530.

Conclusion

For these reasons, MAIF urges a favorable report on Senate Bill 530.

For Information: Sandra Dodson – Government Relations 667-210-5182

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Uploaded by: Sandra Dodson
Position: FAV

MARYLAND
AUTO INSURANCE

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SB530_EconAction_FWA (2023) (1).pdf
Uploaded by: Isadora Stern
Position: FWA

Testimony to the Senate Finance Committee
SB530: Insurance – Maryland Automobile Insurance Fund – Assessments
Position: Favorable with Amendment

February 22, 2023

The Honorable Melony Griffith, Chair
Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401
Cc: Members, Senate Finance Committee

Honorable Chair Griffith and Members of the Committee:

Economic Action Maryland (formerly the Maryland Consumer Rights Coalition) is a people-centered movement to expand economic rights, housing justice, and community reinvestment for working families, low-income communities, and communities of color. Economic Action Maryland provides direct assistance today while passing legislation and regulations to create systemic change in the future.

We are writing in support of SB530 with a proposed amendment.

The Maryland Auto Insurance Fund (MAIF) was created in 1972 by the Maryland General Assembly to provide automobile liability insurance to Marylanders who are unable to obtain it privately.[1] To be eligible for insurance from the Fund, a driver must have been rejected by at least two private insurers or have had automobile insurance canceled or not renewed for any reason other than nonpayment of premiums. In providing insurance, the Fund acts as any private insurance company and is subject to regulation by the Maryland Insurance Commissioner. The Fund also processes and pays certain claims to Maryland residents who are involved in Maryland accidents with uninsured motorists or in hit-and-run incidents where no responsible party can be found.

MAIF is a unique residual market in that all policies are serviced and underwritten by a Maryland Auto, a single quasi governmental company. Forty-two other states use an assigned risk approach, in which residual market policies are doled out to private insurers based on their market share in the voluntary auto insurance market. Maryland Auto's structure is unique in that no private insurers participate directly in MAIF, but are required by law to subsidize any losses from the operation, with the cost being charged back against their own policyholders. In years that the fund has a loss, all Maryland insured drivers help offset the deficit through an assessment mechanism.[2]

An assessment is triggered when Maryland Auto's surplus falls below a certain amount. Maryland Auto indicated in its hearing before the House Appropriations Committee that an assessment is predicted to be triggered by the end of the year.[3] It also indicated that, while an assessment has not been conducted in over 30 years, there is $9.5 million booked as a liability from that last assessment that has been unused. SB530 proposes this liability be moved into MAIF's surplus when another assessment is triggered. Economic Action Maryland supports MAIF's access to this "overassessment account" and supports that future "overassessments" be returned to the private market to be

[1] https://www.mymarylandauto.com/site/
[2] https://govt.westlaw.com/mdc/Browse/Home/Maryland/MarylandCodeCourtRules?guid=N77AD8FE09B6F11DB9BCF9DAC28345A2A&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default)
[3] https://mgaleg.maryland.gov/mgawebsite/Committees/Media/false?cmte=t%26e&clip=TAE_2_2_2023_meeting_1&ys=2023rs

returned to policyholders.

However, Economic Action Maryland is concerned with the change in allocation of uninsured motorists fines proposed on pages 6-9 under the Transportation Article.

Proposed Amendment
STRIKE ALL LINES UNDER THE TRANSPORTATION ARTICLE. LINES 25-31 ON PAGE 6, LINES 1-32 ON PAGE 7, LINES 1-34 ON PAGE 8, AND LINES 1-20 ON PAGE 9.

The percentage of uninsured drivers in Maryland is 14.1% - which is far more than surrounding states including Pennsylvania (6%), Virginia (10%), New York (4.1%), and West Virginia (9.2%).[4] High premium costs and lack of affordable options is a leading cause for drivers to go without insurance. While Maryland has increased coverage and has passed a number of policies to enforce the law requiring drivers to purchase insurance, the state has done very little to make auto insurance more affordable to enable low-wage workers to comply with the law.

Furthermore, Maryland also has an atypical reliance on the residual insurance market compared to other states. Typically, a residual market customer has a bad driving record, but Maryland Auto serves a much broader base and a larger number of good drivers than most states. In 2018, Maryland Auto issued 61,303 policies, which included 30,509 applicants with clean driving records.[5] In 2022, Maryland Auto reported that 58% of their policyholders have not had an at-fault accident or a moving violation within the last three years and that the leading cause policyholders are enrolled through Maryland Auto is lack of a credit history or poor credit scores or no continuous automobile insurance coverage.[6] According to the National Association of Insurance Commissioners 2023 Auto Insurance Database Report, only two other states had more earned exposures in their residual market than Maryland in 2019 (the most recent year for which countrywide data are available).[7] While Maryland had 39,061 earned exposures in 2019, 70% of states had fewer than 100 earned exposures and 84% had fewer than 1,000 in their residual markets.

The high rate of uninsured motorists in the state and the unusual reliance on the residual market by good drivers, indicate that there is an auto insurance affordability crisis in our state. Funding the insurer of last resort on the fines charged to drivers the Fund has failed is bad policy. Not only would this create a funding mechanism drawn from the backs of poor Marylanders, it would create a reliance on a pool of uninsured motorists in order to maintain funding. If the committee considers this funding mechanism, Economic Action Maryland would recommend an uninsured motorist amnesty program be put in place to help low-income drivers pay their fines without falling into debt.

By law, MAIF is intended to be funded through an assessment process, and SB530 improves and clarifies this process. However, Economic Action Maryland highly recommends that this esteemed committee consider the implications of the change to the Transportation Article laid out in this bill.

For these reasons, we support SB530 with amendment.

Respectfully,

Isadora Stern
Policy Manager

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[4] https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists
[5] https://abell.org/wp-content/uploads/2022/02/Auto20Insurance20Report2011_20_191.pdf, pg.9
[6] https://static1.squarespace.com/static/5b05bed59772ae16550f90de/t/63d93da4e516ab7b9d5e377f/1675181476962/FINAL+-+MAIF+Budget+Follow+up+%283%29.pdf
[7] https://content.naic.org/sites/default/files/publication-aut-pb-auto-insurance-database.pdf, pg.147

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Uploaded by: Katherine Klausmeier
Position: FWA

SB0530/933628/1

AMENDMENTS
PREPARED
BY THE
DEPT. OF LEGISLATIVE
SERVICES

17 FEB 23
10:46:32

BY: Senator Klausmeier
(To be offered in the Finance Committee)

AMENDMENTS TO SENATE BILL 530
(First Reading File Bill)

AMENDMENT NO. 1

On page 1, in line 26, strike "and (f)".

AMENDMENT NO. 2

On page 9, strike in their entirety lines 6 through 18, inclusive.

MD 2023 NAMIC letter SB530 MAIF Assessment.pdf

Uploaded by: Matt Overturf

Position: FWA

NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

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20 F Street N.W., Suite 510 | Washington, D.C. 20001

FINANCE COMMITTEE

MARYLAND SB 530: Insurance – Maryland Auto Insurance Fund – Assessments

FAVORABLE WITH AMENDMENT

February 22, 2023

Chairwoman Griffith and Members of the Senate Finance Committee:

On behalf of the National Association of Mutual Insurance Companies[1] (NAMIC) thank you for the opportunity to submit this statement favorable with amendment to Senate Bill 530.

NAMIC consists of more than 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers.

NAMIC joins the insurance industry MAMIC, APCIA, IA&B as Favorable with Amendment (FWA) on Senate Bill 530. Collectively, we have developed what we believe to be a prudent set of amendments (see attachment) that will address some of the funding challenges of the Maryland Auto Insurance Fund while providing reasonable guardrails around MAIF's rate making process for the Insurance Commissioner to review and approve rate filings.

Thank you for the time to consider our collective position on Senate Bill 530.

Sincerely,

Matthew Overturf

Matthew Overturf, Regional Vice President
Ohio Valley/Mid-Atlantic Region
moverturf@namic.org

[1] NAMIC member companies write $357 billion in annual premiums and represent 69 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

Attachment:

Amendment No. 1:
On page 7, in line 25 strike **"50%"** and strike the brackets in lines 25 and 26, and strike beginning with "**AND**" in line 30 through line 32.

Amendment No. 2:
On page 8, strike the brackets in lines 3 and 4, and strike beginning with "**AND**" in line 6 through "**4**" in line 12.

Rationale: Amendments 1 and 2 return MAIF payments from uninsured motorist penalties to the status quo. New language in the bill that would substantially increase the recovery of uninsured motorist penalties by MAIF is removed, and the current formula of the allocation of uninsured motorist penalties to MAIF is retained.

Amendment No. 3
On page 6, after line 24, add: **Section 20-507(d)** In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under Title 11, Subtitle 3 of this article but also the statutory purpose of the Fund under Section 20-301 of this title.

"(E) THE FUND SHALL FILE A RATING PLAN NOT LESS THAN ANNUALLY, AND APPROVAL OF ANY RATING PLAN BY THE COMMISSIONER SHALL BE REQUIRED BEFORE THE PLAN IS EFFECTIVE. A RATING PLAN FILED UNDER THIS SUBSECTION SHALL:

(1) USE ACTUARIALLY JUSTIFIED RATES; AND
(2) STATE WHETHER RATES USED IN THE FILING ARE ADEQUATE OR INADEQUATE, TOGETHER WITH THE PERCENTAGE, IF ANY, OF RATE INADEQUACY.
(3) THE COMMISSIONER MAY DETERMINE THAT A RATE LESS THAN 15% INADEQUATE UNDER ACTUARIALLY JUSTIFIED RATES MAY COMPLY WITH THE STATUTORY PURPOSE OF THE FUND UNDER THIS SECTION.
(4) FOR ANY RATE INADEQUACY EXCEEDING 15% OF ACTUARIALLY JUSTIFIED RATES, THE FUND SHALL, AS PART OF ITS FILING, PROVIDE A REPORT TO THE COMMISSIONER JUSTIFYING THE RATE INADEQUACY, INCLUDING A PLAN TO ACHIEVE RATE ADEQUACY ON A SCHEDULE APPROVED BY THE COMMISSIONER."

Rationale:
The intent of this language is to apply reasonable conditions ("guardrails") for the Commissioner in reviewing and approving a MAIF rate filing. The 15% threshold in the language is taken from a January 2004 report prepared by the MIA as a requirement under House Bill 521 (2002) to "study the impact of premium rates on policies issued by the Maryland Automobile Insurance Fund on the private insurance market."

SB 530_amendments.pdf
Uploaded by: Sarah Joan Smith
Position: FWA

Bryson F. Popham, P.A.

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February 21, 2023

The Honorable Melony Griffith
Chair, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401

RE: Amendments to Senate Bill 530
Insurance – Maryland Automobile Insurance Fund – Assessments

Dear Chair Griffith and Members of the Senate Finance Committee,

Please accept the attached amendments on Senate Bill 530 on behalf of our clients, Agency Insurance Company (AIC), the Insurance Agents and Brokers of Maryland (IA&B), and the Maryland Association of Mutual Insurance Companies (MAMIC).

Bryson Popham from our office will be delivering oral testimony at the hearing on behalf of these same clients.

Very truly yours,

Sarah Joan Smith

Sarah Joan Smith

By:

AMENDMENTS TO SENATE BILL 530
(First Reading File Copy)

Amendment No. 1:

On page 7, in line 25 strike **"50%"** and strike the brackets in lines 25 and 26, and strike beginning with "**AND**" in line 30 through line 32.

Amendment No. 2:

On page 8, strike the brackets in lines 3 and 4, and strike beginning with "**AND**" in line 6 through "**4**" in line 12.

Rationale:
Amendments 1 and 2 return MAIF payments from uninsured motorist penalties to the status quo. New language in the bill that would substantially increase the recovery of uninsured motorist penalties by MAIF is removed, and the current formula of the allocation of uninsured motorist penalties to MAIF is retained.

Amendment No. 3

On page 6, after line 24, add:

Section 20-507(d) In reviewing rates filed by the Fund, the Commissioner shall consider not only the rating principles under Title 11, Subtitle 3 of this article but also the statutory purpose of the Fund under Section 20-301 of this title.

"(E) THE FUND SHALL FILE A RATING PLAN NOT LESS THAN ANNUALLY, AND APPROVAL OF ANY RATING PLAN BY THE COMMISSIONER SHALL BE REQUIRED BEFORE THE PLAN IS EFFECTIVE. A RATING PLAN FILED UNDER THIS SUBSECTION SHALL:

(1) USE ACTUARIALLY JUSTIFIED RATES; AND
(2) STATE WHETHER RATES USED IN THE FILING ARE ADEQUATE OR INADEQUATE, TOGETHER WITH THE PERCENTAGE, IF ANY, OF RATE INADEQUACY.
(3) THE COMMISSIONER MAY DETERMINE THAT A RATE LESS THAN 15% INADEQUATE UNDER ACTUARIALLY JUSTIFIED RATES MAY COMPLY WITH THE STATUTORY PURPOSE OF THE FUND UNDER THIS SECTION.
(4) FOR ANY RATE INADEQUACY EXCEEDING 15% OF ACTUARIALLY JUSTIFIED RATES, THE FUND SHALL, AS PART OF ITS FILING, PROVIDE A REPORT TO THE COMMISSIONER JUSTIFYING THE RATE INADEQUACY, INCLUDING A PLAN TO ACHIEVE RATE ADEQUACY ON A SCHEDULE APPROVED BY THE COMMISSIONER."

Rationale:
The intent of this language is to apply reasonable conditions ("guardrails") for the Commissioner in reviewing and approving a MAIF rate filing. The 15% threshold in the language is taken from a January 2004 report prepared by the MIA as a requirement under House Bill 521 (2002) to "study the impact of premium rates on policies issued by the Maryland Automobile Insurance Fund on the private insurance market."

sb 530_IAB_FWA.pdf
Uploaded by: Sarah Joan Smith
Position: FWA

February 21, 2023

The Honorable Melony Griffith
Chair, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401

RE: Amendments to Senate Bill 530
Insurance – Maryland Automobile Insurance Fund – Assessments

Dear Chair Griffith and Members of the Senate Finance Committee,

I am writing as Chair of the Legislative Committee for the Insurance Agents and Brokers of Maryland (IA&B). IA&B is a trade association comprised of nearly 200 independent agencies, employing between 1,000 and 2,000 licensed Maryland insurance producers, which are located in and doing business throughout the State of Maryland and surrounding states.

IA&B members have always utilized the Maryland Automobile Insurance Fund (MAIF) for the purpose that was intended by the creation of MAIF in 1972. That purpose was to create a residual automobile insurance market, a "market of last resort," for automobile insurance applicants unable to obtain coverage in the private insurance market.

In other states, such as Pennsylvania and Virginia, residual markets such as MAIF have diminished in size because private insurers have stepped in with competitive products to provide the coverage required by law. By contrast, it is our understanding that MAIF has been growing in recent months. This is due in large part, we believe, to MAIF's consistently inadequate rates. MAIF has not filed for a rate increase since 2019, while private insurers have responded to inflationary pressures with regular rate adjustments. Such adjustments are required under Maryland statutes governing insurance rates.

For those Committee members who are unfamiliar with insurance pricing, the law in Maryland and other states has long required that rates cannot be excessive, inadequate, or unfairly discriminatory. Each of these factors can trigger additional regulatory scrutiny and action. Inadequate rates, such as those employed by MAIF, can be just as dangerous as rates that are excessive. With Senate Bill 530, inadequate rates are the primary reason that MAIF is requesting additional funding from the General Assembly. Without coupling additional funding with more responsible rating practices by MAIF, the Agency will simply be back in front the General Assembly asking for even more money in the near future.

We are advised that MAIF rates in some areas are as much as 40% inadequate. No product or service that is so seriously underpriced can be offered on a sustainable basis. If the General Assembly simply gives MAIF millions more in subsidies, no problems will be solved, but some will be created. Small and medium sized automobile insurers in the State, on whom IA&B members depend, will be unable to compete with MAIF on price. Of course, MAIF is not supposed to be a competitor in any event.

The solution to MAIF's problems is to a) provide the funding they need from the prior assessment funds, which are approximately $9.5 million, b) require the Maryland Insurance Administration to take additional steps in their supervision of MAIF rate making, and c) defer any additional subsidy consideration to the 2024 Legislative Session. These measures are included in the set of insurance industry amendments that has been provided to the Committee. IA&B adopts those amendments, and urges their inclusion should the Committee render a favorable report on Senate Bill 530.

Very truly yours,

Stacey Nicholson
IA&B Legislative Committee Chair

cc: John Savant
Claire Pantaloni
Bryson Popham

sb 530_MAMIC_FWA.pdf

Uploaded by: Sarah Joan Smith

Position: FWA

MAMIC
Maryland Association of
Mutual Insurance Companies
191 Main Street, Suite 310 – Annapolis MD 21401 – 410-268-6871

February 21, 2023

The Honorable Melony Griffith
Chair, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401

RE: Senate Bill 530 - Insurance - Maryland Automobile Insurance Fund – Assessments - FWA

Dear Chair Griffith and Members of the Senate Finance Committee,

On behalf of the Maryland Association of Mutual Insurance Companies (MAMIC), we respectfully request a favorable report with amendments on Senate Bill 530.

The Maryland Automobile Insurance Fund (MAIF) is a State agency that serves as the residual market for automobile insurance applicants who are unable to obtain coverage through private insurers.

MAMIC is comprised of 12 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.

While the statutory framework for MAIF requires that an applicant obtain declinations from two insurers before being issued a policy, it has been the experience of MAMIC members that offer automobile insurance in the State that MAIF can be a serious, if unintended, competitor on price. This is highly unusual given that MAIF should be expected to provide coverage largely to persons who may incur greater than average claims, thereby requiring higher than average premiums to cover the risk. Underpriced MAIF policies represent an unfair advantage for MAIF, and they can present a serious risk to the private automobile insurance market, especially to smaller insurers such as MAMIC members.

We are advised that MAIF rates are inadequate (underpriced) by as much as 40% in some cases. While we recognize that the Insurance Commissioner must consider the statutory purpose of MAIF in reviewing MAIF rates, we respectfully submit that 40% or similar rate inadequacies are simply not sustainable. We further understand that MAIF employs an “affordability index” or similar factor in its rate making procedures. We are unaware of any rating principles under Maryland law that would authorize MAIF to determine affordability in automobile insurance and use it in rate making.

The amendments that have been submitted on behalf of the insurance industry address these points. We are simply requesting that the Maryland Insurance Administration return MAIF to its prior practice of filing rating plans for approval by the regulator before placing them in use, and to remove any rating factor that is related to affordability. We hasten to add that affordability in automobile insurance is a very important factor. For that reason, it must be evaluated and regulated by the Maryland Insurance Administration, in regular consultation with the Maryland General Assembly.

We respectfully request that the Committee adopt the insurance industry amendments, and we urge their inclusion should the Committee render a favorable report on Senate Bill 530.

Sincerely,

Jeane A. Peters, President