Senate Finance Committee

Senator Pamela Beidle, Chair
Senator Antonio Hayes, Vice-Chair

Thursday, January 23, 2025

Agenda

3:00 p.m.

Briefing by the Maryland Automobile Insurance Fund

- Al Redmer, Executive Director
- De'Von Brown, Government Relations Manager
- Joe Danahy, Associate General Counsel

Maryland Automobile Insurance Fund

January 2025

Insured Division

- Created – 1972 (HB 44/Chapter 73) Began insurance operations on January 1, 1973
- Primary Function – Insured Division sells automobile insurance policies to Maryland residents & businesses:
    - Turned down by two private auto insurers
    - Cancelled or non-renewed by one private auto insurer
- Independent & non-budgeted agency
- Insured Division receives no State, special or Federal Funds
- Operates on premiums, investment income and when necessary, an assessment on the automobile insurance industry. An assessment has not occurred since 1989
- An assessment will be declared in 2025.

Personnel

- 9-Member Board appointed by the Governor with the advice and consent of the Senate
- Approximately 200 employees consisting of insurance professionals - claim adjusters, underwriters, claims attorneys, and insurance accountants
- Not part of State Personnel Management System
- Participates in the State health & retirement systems (pays the employer's share)
- Attorney General does not represent Maryland Auto. General Counsel serves as counsel to Maryland Auto & Board of Trustees
- In-House Counsel Unit and Outside Counsel for claims related matters
- Executive Director appointed by the Board of Trustees & oversees daily operations

Oversight

- Regulated by the Maryland Insurance Administration in the same fashion as all other insurers:
    - Financial Exams
    - Market Conduct Analysis and Exams
    - Rate & Form Filing
    - File Quarterly & Annual Financial Statements
    - Consumer Complaints
    - General Inquiries
- Subject to the provisions of the Insurance Article, except as otherwise provided by law
- Internal Auditor conducts compliance & fiscal audits. Reports functionally to the Board of Trustees Audit Committee & administratively to the Executive Director
- External Auditor annually conducts an independent audit & reports its audit findings directly to the Board of Trustees
- Maryland Auto files its budget information with DBM & DLS. A budget analysis is prepared by DLS and submitted to the Budget Committees for review and consideration

Auto Insurance Basics

Statutory Minimums:

- **Transportation Article §17-103**
- Bodily Injury – Third party - $30,000 per person $60,000 per loss (any two or more persons)
- Property Damage – Third party - $15,000 per loss

- **Insurance Article §19-509**
- Uninsured Motorist Coverage must at least match the Bodily Injury and Property Damage limits required by Title 17 of the Transportation Article (30/60/15)

A policy that carries only the legally required coverages is referred to as "**Liability Only**"

Since all Auto policies in Maryland must, at a bare minimum carry these coverages, the premium associated with these legally required coverages are referred to as "**Liability Base Rates**"

Additional Coverages:

- Policyholders can select higher Liability and Uninsured Motorist limits than statutorily required.
- Policyholders can also add-on coverages for their own vehicle – these are First party coverages.
  - Comprehensive – covers damages to the vehicle that isn't caused by a collision (theft, vandalism, animal collisions, etc.)
  - Collision – covers damages to the insured vehicle caused by a collision with another vehicle, guardrail, etc.
  - Towing and Rental
  - Personal Injury Protection (PIP) – medical coverage up to a specified amount for medical treatment and/or lost wages incurred as a result of an auto related loss.

Our PPA Policyholders

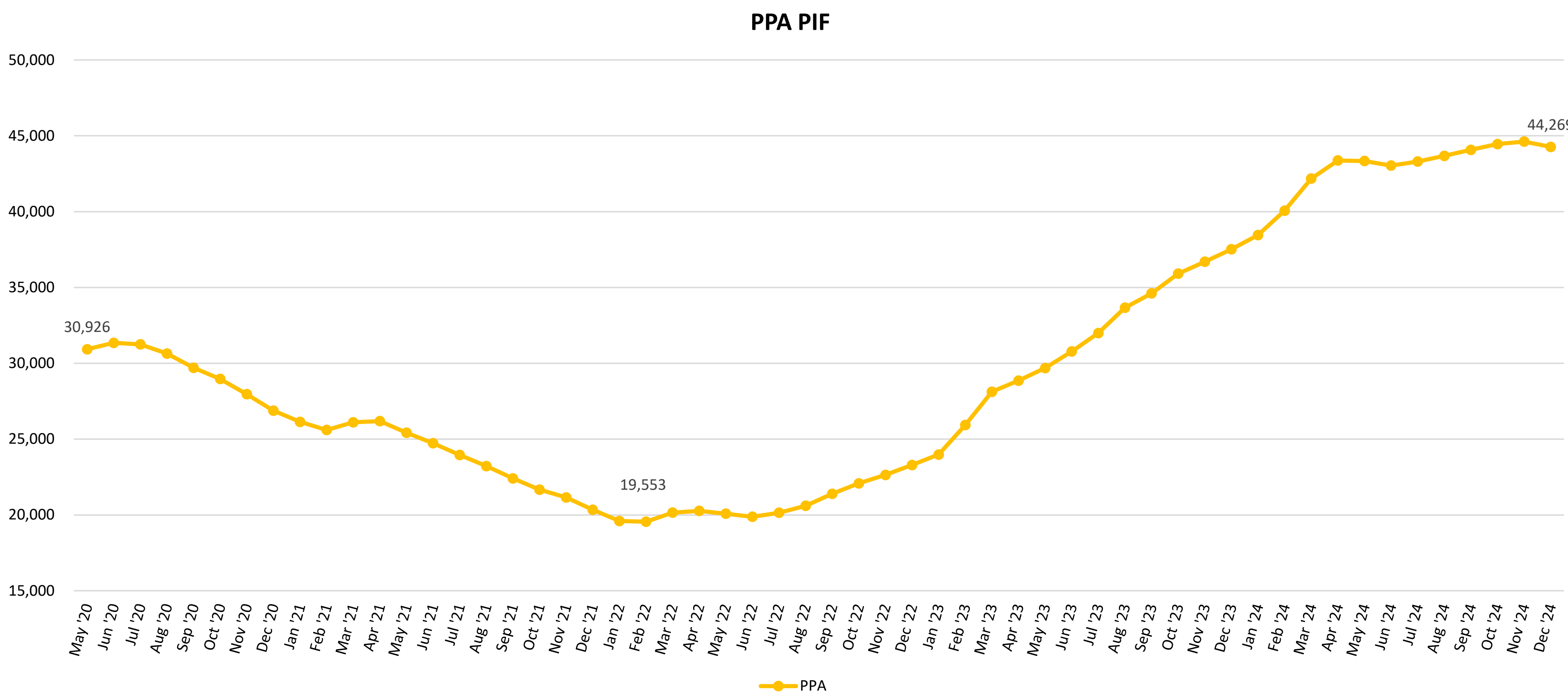
Eligibility Requirements:
- MD Resident
- Valid MD driver's license or registration
- Turned down by two private auto insurers or cancelled or non-renewed by one private auto insurer

Rating Factors:
- Driving record
- Vehicle Type
- Address
- Not included in MD Auto rating:
  - Credit – IN §27-501 allows 40% discount or surcharge
  - Employment
  - Education

Policyholder profile:
- 79% 50 years-old or younger
- 81% of policyholders in the Baltimore or DC Metro areas
  - **38**% Prince George's County
  - **22**% Montgomery/Howard Counties
  - **21**% Baltimore City/County
- 87% of policies are single vehicle
- Average age of insured vehicle – 12.5 years old
- 70% of policies are liability only
- 52% PPA Cancellation rate 2024 (35,493 policies cancelled)

Payment Options:
- 78% - Premium Finance Companies (PFC)
- 19% - Interest-free installment plan
- 3% - Pay in full

PPA Policies in Force (PIF)



Sample Rate Comparisons

The rates below are Maryland Auto rates from around the State. They are all based on the same driver profile – 34-year-old single male driving a 14-year-old Honda Accord. The first chart shows the rates for minimum coverage and compares the rates for a clean driver and a driver with two violations (1 chargeable loss and 1 speeding ticket). The second chart shows the same driver with a coverage up to 100/300/100 (increased limits).

Zip code	County	Coverages	Annual Premium Clean Driving Record	Annual Premium 1 Chargeable Loss + 1 Ticket
21217	Baltimore	Min. limits	$2,452	$3,999
21223	Baltimore	Min. limits	$2,456	$4,012
20710	Prince George's	Min. limits	$1,388	$2,321
20706	Prince George's	Min. limits	$1,399	$2,341
20854	Montgomery	Min. limits	$1,189	$1,996
21108	Anne Arundel	Min. limits	$1,613	$2,751
20602	Charles	Min. limits	$1,466	$2,493
20646	Charles	Min. limits	$1,355	$2,309
21835	Dorchester	Min. limits	$931	$1,544
21727	Frederick	Min. limits	$1,158	$1,926

Zip code	County	Coverages	Annual Premium Clean Driving Record	Annual Premium 1 Chargeable Loss + 1 Ticket
21217	Baltimore	Full coverage	$6,670	$10,698
21223	Baltimore	Full coverage	$6,676	$10,721
20710	Prince George's	Full coverage	$3,877	$6,380
20706	Prince George's	Full coverage	$3,774	$6,186
20854	Montgomery	Full coverage	$3,399	$5,626
21108	Anne Arundel	Full coverage	$4,154	$6,937
20602	Charles	Full coverage	$3,901	$6,512
20646	Charles	Full coverage	$3,703	$6,189
21835	Dorchester	Full coverage	$2,752	$4,465
21727	Frederick	Full coverage	$3,345	$5,502

Min. limits – 30/60/15 limits, no Comp/Collision, limited PIP, no rental or roadside assistance
Full Coverage – 100/300/100 limits, with comp/collision, full PIP, $500 deductibles no rental or roadside assistance
**The driver profile used for these rate examples represents the typical driver and vehicle insured with Maryland Auto

MD Auto Affordability Index

- A 1985 amendment to §20-507(d) of the Insurance Article (Ch. 610, 1985), stated explicitly: *"Rates charged by the Maryland Automobile Insurance Fund must adequately reflect the degree of risk involved but must also remain affordable to that segment of the population which is dependent on the Fund for automobile insurance."*

- Since 1985, the MIA never questioned whether affordability should be a consideration, even though MAIF has consistently considered affordability, and the statute has not been amended.

- Originally affordability was addressed by providing a 15% discount in Baltimore city where the rates of insurance are unusually high, and income levels are low.

- Currently, the MAIF affordability index is 3.3% of the median household income in that zip code and effectively operates to alleviate the effects of high base rates in areas with low income.

MD Auto Affordability Index

The Affordability Index was Maryland Auto's effort to limit rate increases in low-income communities that have extremely high rates of insurance. The average median household income for the zip codes where the affordability index applies is $64,724 vs. the state-wide median of $91,373. One affected Baltimore zip code has a median household income of $35,541 (21217) whereas the zip codes where the affordability index has no effect on rates have an average median household income of $95,675. Abandoning the affordability index would negatively affect zip codes with the lowest household income in the State and require significant rate increases, particularly in Baltimore City and the surrounding area.

- Base rates are set for each Maryland Auto territory and apply to all policyholders in the territory. Base rates are based on Maryland Auto's loss experience in the territory and are higher in territories that have high losses due to accidents, thefts, vandalism, and fraud.
- Current Annual Liability Base Rates:
  - $ 2,965 per vehicle in zip code 21217
  - $1,004 in most of the Eastern Shore
  - $1,500 - $1,600 in most of Prince Georges County
- This means that drivers with good driving records (who are at Maryland Auto due to credit issues for example) would pay $1,400-$1,900 more for a Maryland Auto policy in Baltimore City than other areas of the State.
- High base rates in Baltimore, coupled with a high poverty rate, is the reason the Affordability Index is concentrated in Baltimore City.

MD Auto Affordability Index – MIA Order

- On December 18, 2024, the MIA issued an Order requiring MAIF to raise rates to an "adequate" level and eliminate the Affordability Index within two years.
- The Order will require MAIF to raise rates substantially, especially in Baltimore City where rates are already much higher than the rest of the State.
- It is MD Auto's position that the Order does not in any fashion consider the statutory purpose of Maryland Auto as required by Insurance Article § 20-507.
- It is also MD Auto's position that the Affordability Index is a reasonable approach to affordability as it is directed at populations where the cost of insurance is exceptionally high, and the rates of poverty are the highest in the State. It is unreasonable to raise rates in these zip codes by 20% or more.
- MD Auto does not agree with the Order but intends to work with the MIA to comply while we continue to look for alternative ways to include affordability in our rates, in accordance with our statutory mission.

Assessment – Amount

- The assessment mechanism has been a part of Maryland law since MD Auto's creation in 1972.
- As the insurer of last resort, providing insurance coverage to the residual market and thus insuring higher risks than in the voluntary market, it was recognized that a funding mechanism was necessary to ensure continued availability of guaranteed coverage for all Maryland motorists.
- MD Auto has not assessed the voluntary automobile insurance market since 1989.
- MD Auto will certify an assessment in March 2025 based on 2024 calendar year operating results.
- Depending on final, audited year-end 2024 results MD Auto estimates the assessment will be around $21 million.
- $21 million assessment equals approximately a .003 assessment ratio ($21 million ÷ $6.6 billion). Maryland Insurers would be assessed slightly less than 1/3 of 1% of its Maryland premium, or $3.00 for every $1,000 in premium.
- The assessment can be recovered by companies as a general expense in a subsequent rate filing, or the company can elect to recoup from their policyholders.

Assessment – Timing

- On or before March 15, 2025, (based on year-end 2024 results), the assessment will be certified by Maryland Auto's Board and reported to the Industry Automobile Association (IAIA). All licensed auto insurers in Maryland are members of IAIA.

- March 15 – May 2025, IAIA calculates the assessment allocation percentage, (the state-wide net written premium of approximately $6.6 billion divided by the amount of the assessment) and provides the percentage to the MIA, Maryland Auto and all 146 companies.

- IAIA calculates individual company assessments based on each company's market share. The top 10 company groups account for more than 90% of the total. The MIA will have previously reported the net written premium of each company.

- The IAIA invoices each company and provides a 30–day payment period.

- Companies pay the assessment to IAIA and by June 30, 2025, IAIA pays Maryland Auto "in one sum" the certified assessment.

Assessment – Recoupment

- By June 30, 2025, companies must elect whether to recoup the assessment from policyholders.
- Recoupment from policyholders is not a common practice nationally. Recoupment is not permitted in states that have a PAIP (Personal Auto Insurance Plan) or CAIP (Commercial Auto Insurance Plans). These plans exist in most states.
- If a company elects to recoup the assessment from its policyholders, the company will add a charge to each premium bill from July 2024 to June 2025 and put a line item on the bill "Recoupment of MAIF assessment, $_____."
- On an average $2,500 annual policy, a $21 million assessment would equal $7.50. Policies are typically monthly so on a $1,250 six-month policy the recoupment would be $ 3.75 or $ .63 per month.
- A $21 million assessment would raise the monthly bill on a $2,500 policy from $208.33 to $208.96.

Assessments on the Insurance Industry are not Uncommon

But recoupment is…

- Many states have assessments to support the auto residual market and are not subject to recoupment: California ($10 million); Illinois ($45 million); Iowa ($9 million); Missouri ($2.7 million); New Jersey ($62 million); Ohio ($20 million); Rhode Island ($13 million); New York ($30 million). [Source AIPSO, quoted on pgs. 32-33 of MIA Report]. These are all booked as expenses and filed as costs in ratemaking. **Recoupment is not permitted.**

Assessments on the Insurance Industry are not Uncommon

Other assessments are applied to Maryland insurers and no recoupment is permitted:

- The Workers Compensation Commission and the Department of Labor are funded by an assessment on workers comp insurers. ($35 million FY 2025). *Labor and Employment §9-316*.
- The Maryland Insurance Administration is funded by an annual "Insurance Regulation Assessment". ($29 million FY 2025). All insurers (including Maryland Auto) are charged an assessment in proportion to their market share. *Insurance Article §2-501*.
- Workers comp insurers are assessed to fund the Uninsured Employers Fund ($7.5 million FY 2025) to pay claims for injured workers whose employer was uninsured and the Subsequent Injury Fund ($24 million FY 2023). *Labor and Employment §10-304*.
- Property and Casualty Guaranty Fund is supported by an assessment based on property and casualty insurers' market share and used to pay claims of insolvent insurers. *Insurance Article §9-306(d)*
- Life and Health Property Guaranty Fund is supported by an assessment based on health insurers' market share and used to pay claims of insolvent insurers. *Insurance Article §9-409*
- Health Benefit Exchange is supported by an assessment of 1% of premium on all health insurers and is used to subsidize health insurance premiums. *Insurance Article §6-102.1 and §31-107*. If applied to auto this would be a $66 million assessment. This is one of the many subsidies and assessment built into the health insurance system.

Reasons for the Assessment–Decline in Surplus and Investment Income

- For the past 20 years, Maryland Auto's premium and surplus has steadily declined, triggering an assessment in 2025:

Year	Surplus	Invested Assets	Investment Income/Realized Gains
2005	$150.0 million	$386 million	$18.8 million
2010	$125.0 million	$279 million	$17.4 million
2015	$69.4 million	$195 million	$13.2 million
2020	$54.0 million	$170 million	$9.5 million
2021	$52.3 million	$157 million	$26.3 million
2022	$24.4 million	$127 million	(-$1.3) million
2023	$19.8 million	$143 million	$6.5 million
2024*	$2.0 million	$152 million	$6.2 million
2025*	$9.0 million	$148 million	$5.2 million

*** 2024 and 2025 projected figures – not actual**

- In most of these years, Maryland Auto had a negative net income, most recently (-$14.6) million in 2023 but no assessments have occurred since 1989. Maryland Auto was able to avoid an assessment due to a much larger 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 and gains.
- 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.
- Loss ratios of this magnitude are not sustainable without a substantial investment income and gains or another significant subsidy.

Reasons for the Assessment – Adverse Claim Development

CLAIM TYPE	COUNTRY-WIDE AVERAGE	ALL MARYLAND INSURERS	MAIF
Bodily Injury	0.98	1.79	6.96
Property Damage	3.72	5.23	15.21

*claim count per 100 insured vehicles

Year	Loss Ratio	Year	Loss Ratio
2014	65.6%	2019	61.9%
2015	76.3%	2020	56%
2016	77.7%	2021	78.2%
2017	74.3%	2022	79.6%
2018	77.3%	2023	83.7%

- Because Maryland Auto's limited book of business is heavily weighted with high-risk exposures, it has a far worse claims experience, both in frequency and severity, than the private market. This is reflected in a large disparity in the number of claims per vehicle insured.
- Maryland Auto has more than 6 times the number of claims per policy than the country-wide average and 3 times the industry average in Maryland:
- Pure loss ratios have steadily increased (except for the two, low loss COVID years):
- This has led to a combined loss ratio that has averaged 124.0% since 2014, meaning that for every dollar collected in premium Maryland Auto paid $1.24 in claims and expenses. Large underwriting losses followed (negative $18 million on average),as did net income losses that averaged $10 million. These negative claims results contributed to a negative net income and corresponding loss of surplus almost every year.

Reasons for the Assessment – Affordability of Rates

- Premiums charged in zip codes where the affordability Index applies are not adequate to cover the full cost of the claims and expenses. This is done to fulfill the statutory mission, but it does contribute to the decline in surplus.
- For more than twenty years, acknowledged and approved by the MIA and in alignment with State policy, MAIF has provided inadequate rates in limited geographical areas to lower income communities.
- This has historically been and is essentially still primarily centered in Baltimore City and the immediately surrounding areas
- In these areas the liability base rates, set based on MAIF loss experience, are extremely high when compared to the low median household incomes.
- MAIF's view is that providing affordable insurance to the segment of the population, which is dependent on the Fund for automobile insurance, aligns with its mission and purpose as the insurer of last resort.
- Further, in MAIF's view, the consideration of affordability in its ratemaking serves to decrease the number of uninsured motorists in the State of Maryland.

Assigned Risk Plans

Pros

Assigned risk plans that do not have an affordability subsidy charge fully "adequate" rates and have very few insured drivers and therefore smaller assessments.

Some assigned risk plans (NY, RI, NJ, MA, PA) have affordability subsidies and have a relatively large book of business and assessments. These states, except RI, all have low UM losses and low UM premiums.

Cons

Requiring "Adequate" rates and ignoring affordability results in a very small number of drivers being insured in the state plan.

- Nine (9) States reported $0 residual market PPA premium.
- Thirty-three (33) States reported annual written PPA premium of less than $40,000 (using $1500 as an average policy cost, this would cover 26 or fewer policies per state)
- In total, thirty-nine (39) States had less than $250,000 in residual market PPA premium meaning that in 39 states, less than 200 policies were written in the residual market.

A small assigned risk plan can shift the cost to buy UM coverage, usually making UM coverage more expensive*:

- MD – (pop 6.2 M) - $103 million written premium; UM premium $61.73
- DC – (pop 700,000) - $368,086 written premium; UM premium $117.28
- LA – (pop 4.6 M)- $33,715 written premium; UM premium $159.48
- NY – (pop 20 M) - $187 million written premium; UM premium $30.55
- FL – (pop 23 M) - $875,560 written premium; UM premium $175.50

*Source

AIPSO, Ranking of States by Residual Market 2023
NAIC, Auto Insurance Database January 2024

Next Steps

- Since 2022 MAIF has made significant progress towards rate adequacy.
- During the pandemic carriers were encouraged to reduce rates due to lower risk based on lower driven miles. MAIF did not reduce rates but maintained then-current rates without any increases.

- **Rate increases prior to MIA order**
    - February 2024 – 6.3% overall – included 25% Collision / 11% Comprehensive
    - August 2024 – 11.2% overall – subsequently withdrawn after being advised by MIA that the rate was insufficient and would not be approved
    - January 2025 – 13.8% overall
- **Future Rate Increases**
    - Under the order MAIF is required to have adequate rates and will be filing a rate increase for July 2025 together with a plan to achieve adequacy by the end of 2026
- In the coming year MAIF intends to carefully monitor the effects of the rate increases and seek solutions to the clearly unaffordable rates in low-income communities, particularly Baltimore City.

MARYLAND
AUTO INSURANCE

Thank you