

**D70J00**  
**Maryland Automobile Insurance Fund**

**Program Description**

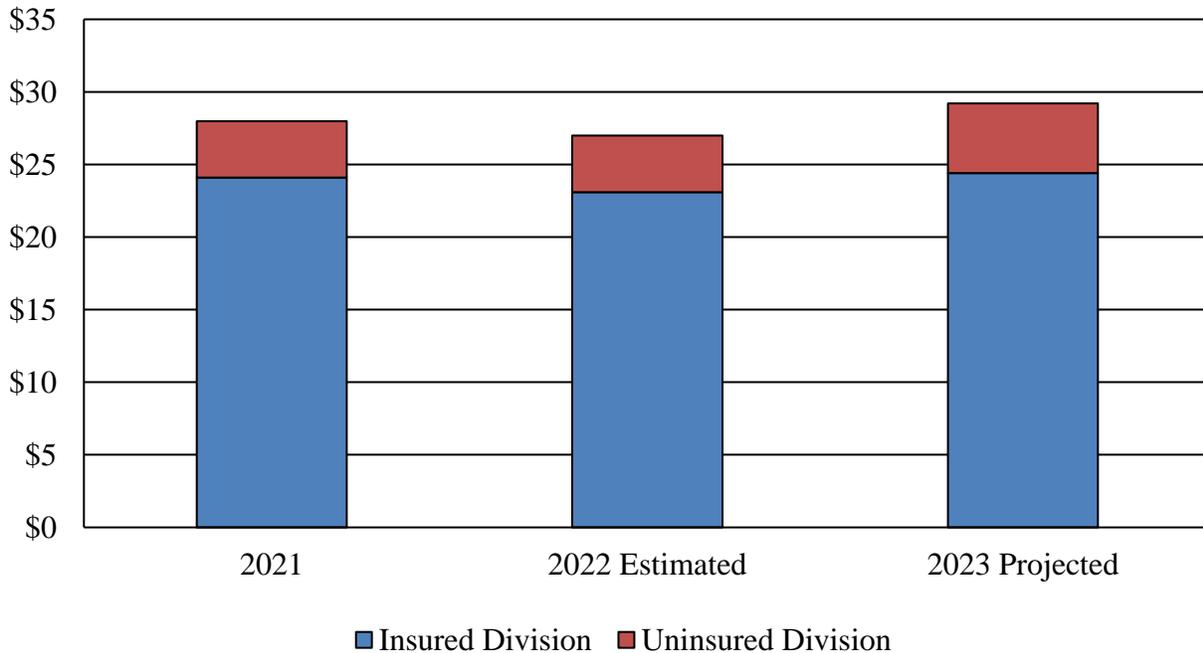
The Maryland Automobile Insurance Fund (Maryland Auto) is an independent, nonbudgeted State agency created through Chapter 73 of 1972. Similar to other insurance companies, Maryland Auto operates on a calendar year basis.

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, the Uninsured Division receives income from investments and uninsured motorist fines.

***Operating Budget Summary***

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**Fiscal 2023 Budget Increases \$2.2 Million, or 8.2%, to \$29 Million**  
**(\$ in Millions)**



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**Proposed Budget Change**

As shown in **Exhibit 1**, the calendar 2023 budget of Maryland Auto is expected to increase by approximately \$2.2 million compared to calendar 2022. Personnel expenditures increase by approximately \$949,000. In addition, the Insured Division expenses increase due to vendor costs related to information technology and increased claim volumes in the Insured Division that have resulted in increased costs in towing and handling calls outside of normal business hours.

**Exhibit 1  
Proposed Budget  
Maryland Automobile Insurance Fund  
(\$ in Thousands)**

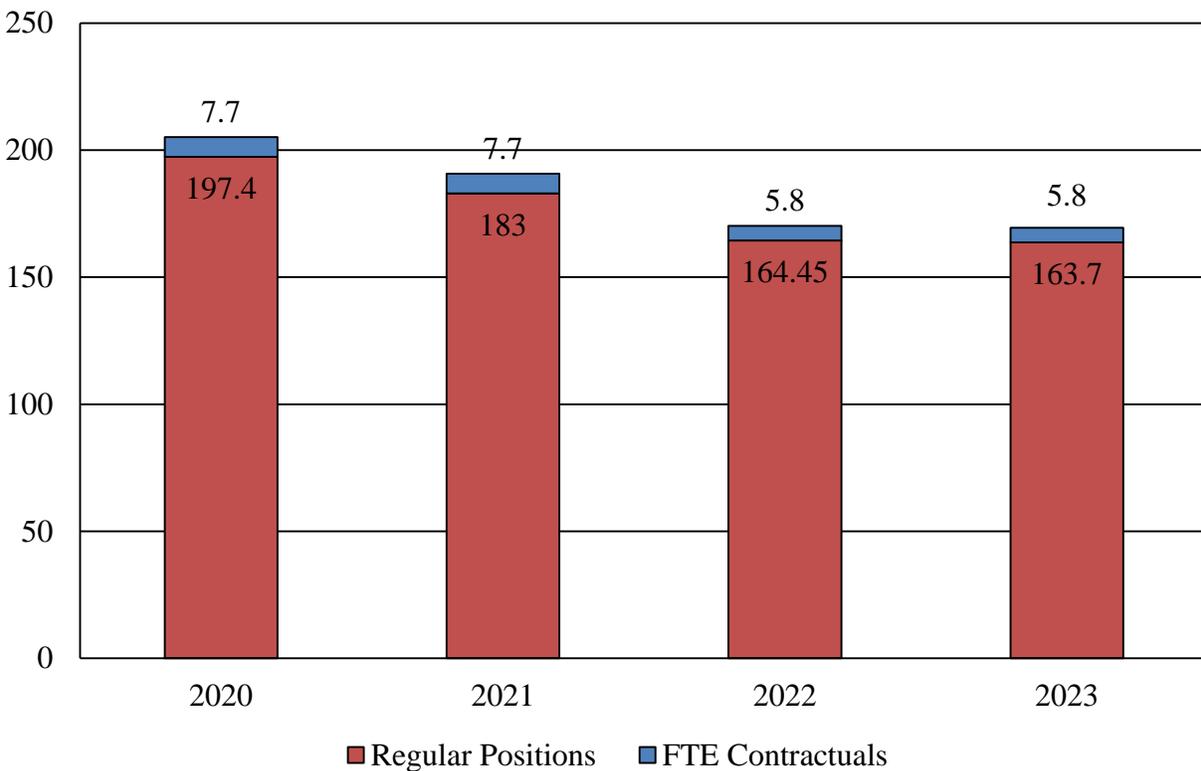
	<u>Insured Division</u>	<u>Uninsured Division</u>	<u>Nonbudgeted Fund Total</u>
Calendar 2022 Estimated	\$23,115	\$3,901	\$27,016
Calendar 2023 Projected	24,425	4,813	29,238
Calendar 2022-2023 Amount Change	1,310	912	2,222
Calendar 2022-2023 Percent Change	5.67%	23.38%	8.22%

<b>Where It Goes:</b>	<u>Change</u>
<b>Personnel Expenses</b>	
<i>Regular employee salaries</i>	
Uninsured Division.....	\$649
Insured Division.....	300
<b>Other Changes</b>	
<i>Insured Division</i>	
Contractual services primarily for software licensing and other information technology (IT) costs.....	29
Contractual expenses associated with towing and handling increased volumes of calls related to claims outside of normal business hours.....	404
Other operational expenses including IT related costs.....	-123
<i>Uninsured Division</i>	
Outreach to advertise and educate state residents on Maryland Auto.....	140
Other operational expenses including IT related costs.....	123
<b>Total</b>	<b>\$2,222</b>

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

While the number of personnel in the Uninsured Division has remained mostly constant in recent years, the Insured Division has seen notable decreases in regular personnel each year, largely from voluntary attrition. **Exhibit 2** illustrates that the total number of personnel in the Insured Division has decreased by over 17% between calendar 2020 and 2023. As part of an effort to target this problem, there are notable increases in calendar 2023 regular personnel costs for both divisions, explained by increases to salaries and benefits to compensate for inflation, including in healthcare premiums. **Maryland Auto should comment on the reasons for the decline in regular positions and how the decline has impacted agency operations.**

**Exhibit 2**  
**Insured Division Personnel Changes**  
**Calendar 2020-2023**



FTE: full-time equivalent

Source: Governor’s Budget Books

## ***Key Observations***

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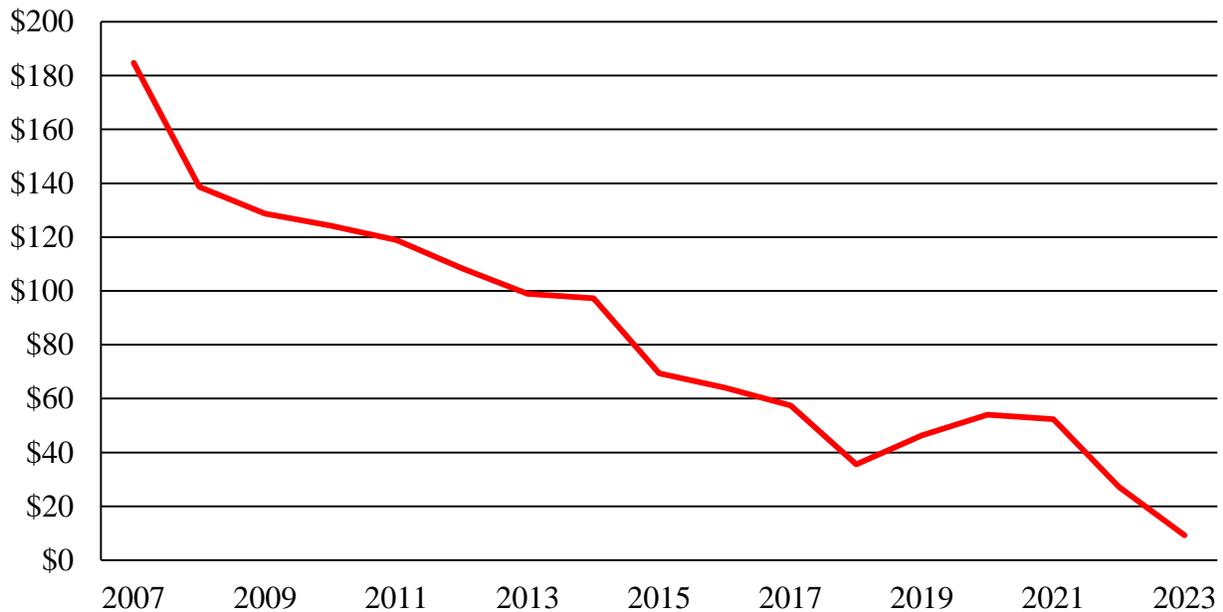
### **1. Insured Financials and Surplus**

#### **Insured Division Surplus History**

An insurance company functions by collecting premiums paid by insured parties into a pooled resource of funds for use by participating parties when in need of sudden financial aid in repairing unexpected damages. Premium amounts are decided according to industry standards involving estimated risk for different classes of individual policyholders so that sufficient funds are available to meet the needs of those individuals unfortunate enough to be involved in an accident. The funds available to meet these expenses is called the surplus. If premium prices or the number of policyholders are inadequate, the surplus may be insufficient to cover the claim expenses as ordered by contracts between policyholders and the insurance carrier. **Exhibit 3** illustrates how the surplus funds in the Maryland Auto Insured Division have changed since the Great Recession.

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**Exhibit 3**  
**Surplus Funds as of December 31 of Each Year**  
**Insured Division**  
**Calendar 2007-2023 Projected**  
**(\$ in Millions)**



Source: Maryland Automobile Insurance Fund

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*D70J00 – Maryland Automobile Insurance Fund*

The Insured Division has faced an uninterrupted downward trend from almost \$185 million in calendar 2007 to \$35.6 million in 2018, losing more than 80% of its surplus in that time. The surplus, however, recovered to \$53 million in calendar 2020 and remained at a similar level in calendar 2021. After two years of modest recovery, the surplus at the end of calendar 2022 is estimated at just over \$27 million, the lowest it has been since 1988.

**Insured Division Financials**

**Exhibit 4** presents the financial statement of the Insured Division. In calendar 2023, the Insured Division’s income is projected to increase by nearly \$7.9 million compared to calendar 2022, but expenses are also expected to increase by approximately \$7.4 million. The Department of Legislative Services (DLS) notes, however, that the calendar 2022 numbers are not yet final, and projections for calendar 2023 can vary substantially over time. Maryland Auto has currently projected calendar 2023 overall to be close to 2022 in net loss, but a higher than expected number of policies in force for the fourth quarter of 2022 may indicate different conditions for 2023. Maryland Auto emphasizes that its performance is subject to the market and other insurance company participants. Therefore, caution is warranted when interpreting the agency’s financial position based on the estimated and projected figures.

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**Exhibit 4**  
**Maryland Automobile Insurance Fund**  
**Insured Division Financial Statement**  
**Calendar 2021-2023 Projected**

	<u>Actual 2021</u>	<u>Estimated 2022</u>	<u>Projected 2023</u>
Earned Premium	\$60,263,958	\$53,263,014	\$59,046,258
Investment Income	16,299,568	150,641	2,250,000
Other Income	4,375,753	110,000	125,876
<b>Total Income</b>	<b>\$80,939,279</b>	<b>\$53,523,655</b>	<b>\$61,422,134</b>
Claims Incurred	\$45,896,082	\$39,825,360	\$45,959,327
Claims Expenses Incurred	17,526,359	15,770,708	16,747,140
Other Expenditures	14,737,691	16,477,994	16,796,644
<b>Total Expenditures</b>	<b>\$78,160,132</b>	<b>\$72,074,062</b>	<b>\$79,503,111</b>
<b>Net Gain or Loss</b>	<b>\$2,779,147</b>	<b>-\$18,550,406</b>	<b>-\$18,080,977</b>

*D70J00 – Maryland Automobile Insurance Fund*

	<u>Actual 2021</u>	<u>Estimated 2022</u>	<u>Projected 2023</u>
Beginning Surplus	\$54,018,456	\$52,332,126	\$27,219,395
Net Income	2,779,147	-18,550,406	-18,080,977
Unrealized Gain/Loss Change	-4,660,718	-6,533,724	-
Change to Nonadmitted assets	150,918	145,010	122,244
Release of Over-recoupment	44,323	-173,611	-
<b>Ending Surplus</b>	<b>\$52,332,126</b>	<b>\$27,219,395</b>	<b>\$9,260,662</b>
Assessment Threshold		\$14,693,743	\$14,252,726
<b>Ratio of Surplus to Assessment Threshold</b>		<b>1.85</b>	<b>0.65</b>

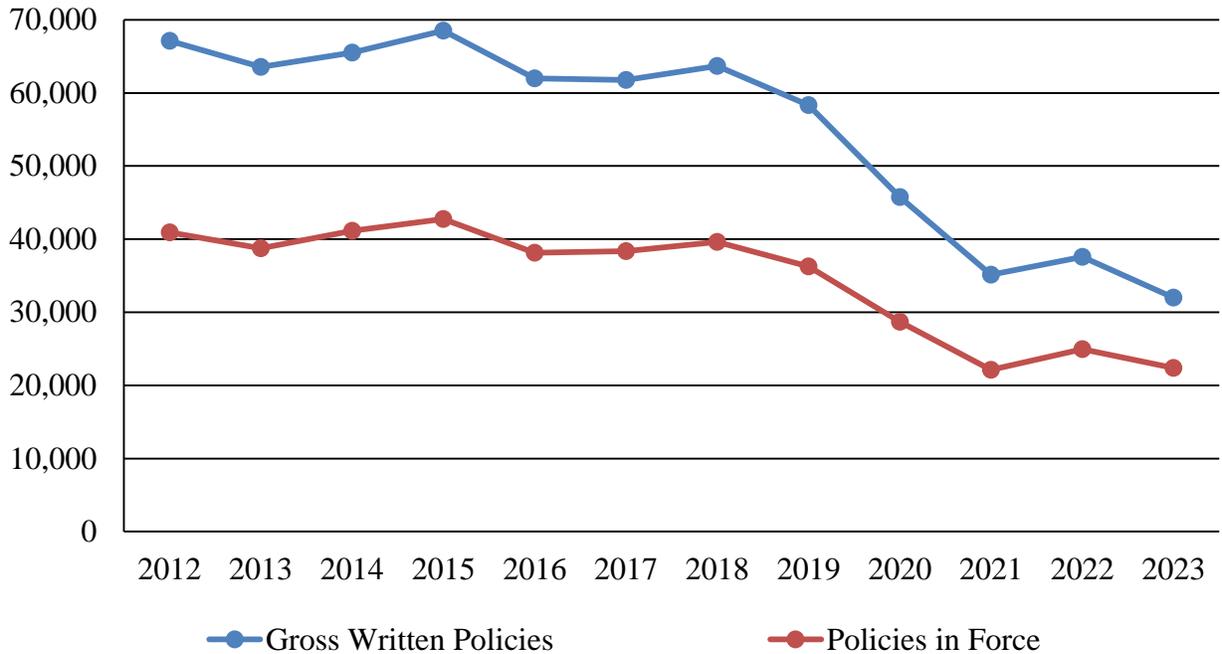
Note: The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All calendar 2022 and 2023 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

For example, estimates available during the 2021 session for calendar 2021 projected an ending surplus for the year of \$43.3 million; however, when finalized, the actual 2021 ending surplus was \$52.3 million, 21% higher than the projection. Therefore, caution is again warranted that as yearly closeout is ongoing, these values may not be good reflections of actual conditions.

As shown in Exhibit 4, earned premium income represents a substantial share of income in each year. The actual percentage of overall income that earned premium income represents varies year to year largely based on investment income, over which the agency has limited control. Earned premium is dependent on policies written and policies in force. Gross written policies are the total number of policies written while policies in force are the number of active policies (*i.e.*, those that are considered actively in payment). As shown in **Exhibit 5**, the number of gross written policies and policies in force declined for three consecutive years, from calendar 2019 to 2021. The number of gross written policies and, more importantly, policies in force increased by 7% and 13%, respectively, from calendar 2021 to 2022, but Maryland Auto currently does not project that increases will continue into calendar 2023. The number of gross written policies is cautiously expected to fall to approximately 34,500 and policies in force to roughly 22,500 in calendar 2023. The decreases in calendar 2020 may be attributed to the COVID-19 pandemic and associated restrictions on public gatherings and travel that continued into the beginning of calendar 2022. With less travel and tighter budgets, consumers may have chosen to sell a vehicle, share vehicles, or use ride sharing apps.

**Exhibit 5**  
**Policies Issued by Insured Division**  
**Calendar 2012 to 2023 Projected**



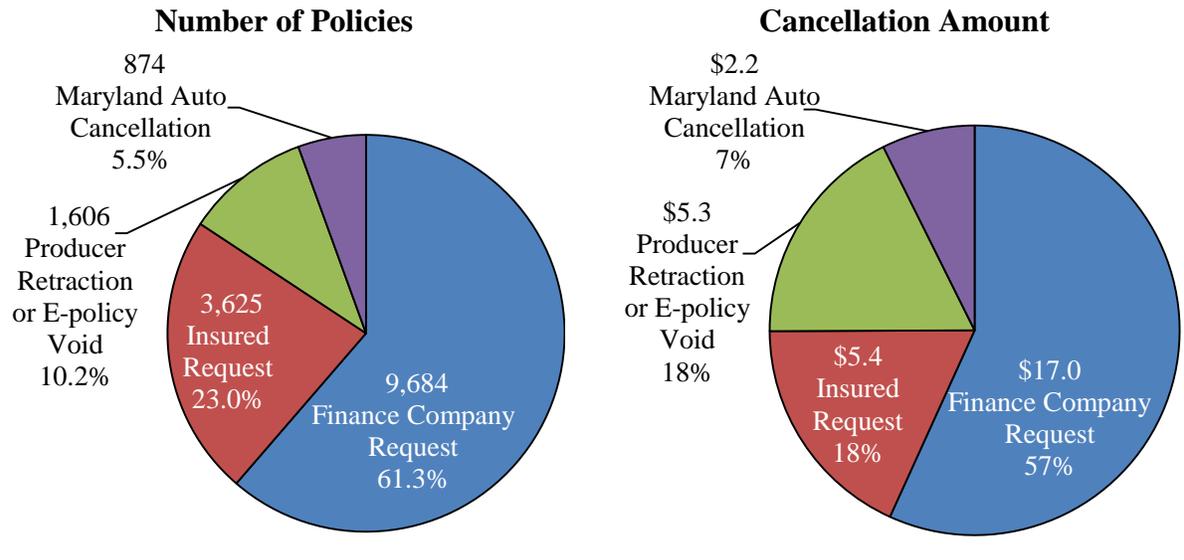
Note: Calendar 2022 values are estimates as financial closeout for the year is incomplete. Calendar 2023 values are projections for 2023 end-of-year totals.

Source: Maryland Automobile Insurance Fund

## Cancellations

The difference between gross written policies and policies in force is a result of policy cancellations. In calendar 2022 through October, Maryland Auto reported a total of 15,789 cancellations for a total of \$30.0 million in premiums. These cancellations happen for a variety of reasons, including by the request of the third-party finance company handling the policy payment, by the request of the insured party, or by the request of the policy producer or Maryland Auto because of ineligibility or insufficient payment of the down payment or premium. **Exhibit 6** provides information on the total canceled funds by cancellation type and the relative frequency of cancellation types.

**Exhibit 6  
Policy Cancellation Types  
October 2022 Year to Date  
(\$ in Millions)**



Maryland Auto: Maryland Automobile Insurance Fund

Source: Maryland Automobile Insurance Fund

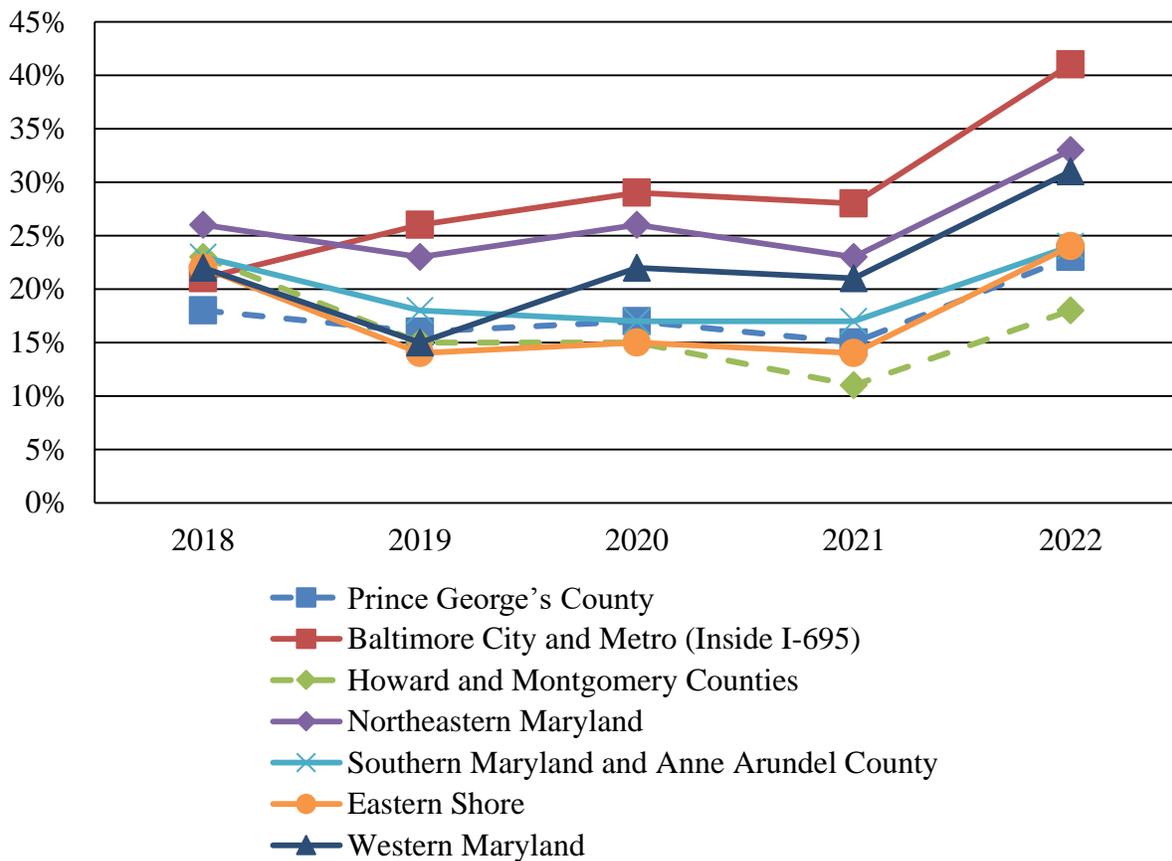
Most cancellations initiated by the insured party are reported as either finding insurance elsewhere or due to a transfer of the vehicle to another owner. The large shares of cancellations initiated by finance companies and policy producers indicates a significant portion of accounts held by individuals initially determined to be eligible but subsequently found to be ineligible or for whom the down payment or ongoing premium was ultimately found to be beyond their ability to pay. **Maryland Auto should comment on how much this cancellation profile changes from year to year and to what extent uncertainty related to policy cancellations influences income and expenditure projections.**

**Rate Inadequacy**

The surplus and its adequacy are determined both by premium prices, the number of policies and associated premium payments, and the number of claims filed. The amount of claim costs not covered by insured premium payments is the inadequacy amount, with the corresponding percentage of total costs being the inadequacy rate. By mandate and construction, the premium rates that Maryland Auto is able to charge are restricted in order to be affordable to the lower-income population being served. Median household income is the primary factor used to determine insurance policy prices in a region. **Exhibit 7** shows that in most years, the inadequacy

rate is highest in Baltimore City and the Northeastern Maryland region. This is due to lower policy rates as well as higher volumes of accidents in the city resulting in claims. However, the inadequacy rate increased at varying levels in all areas of the State in calendar 2022. Maryland Auto indicates that this increase in 2022 is primarily due to increases in claim severity and resulting increase in average cost per claim; however, DLS notes that the inadequacy rate exceeds prepandemic levels, so this is unlikely to be the only factor.

**Exhibit 7**  
**Rate Inadequacy Across Maryland**  
**Calendar 2018 to 2022**



Eastern Shore: Caroline, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester counties  
 Northeastern Maryland: Baltimore, Carroll, Cecil, and Harford counties  
 Southern Maryland and Anne Arundel County: Anne Arundel, Calvert, Charles, and St. Mary's counties  
 Western Maryland: Allegany, Frederick, Garrett, and Washington counties

Note: Rates are set by zip code, which sometimes cross county borders; as a result; these groupings are an approximation.

Source: Maryland Automobile Insurance Fund

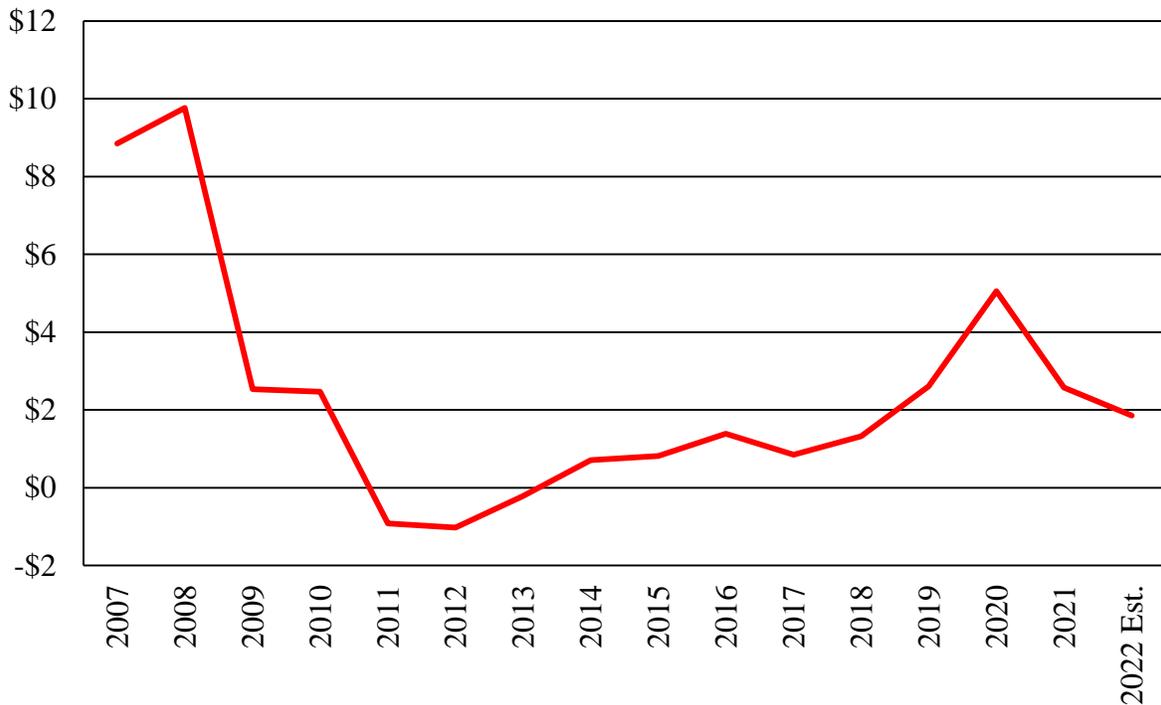
## **Installment Plan**

In the Insured Division, the primary means of maintaining a surplus fund is through selling insurance policies, and Maryland Auto has managed a number of options for policyholders to pay for their policies to make it easier for individuals to obtain and maintain insurance. One of these options is through an installment plan. As a result of Chapter 334 of 2013, Maryland Auto was authorized to begin offering installment payment plans beginning October 1, 2013. Previously, Maryland Auto was prohibited by statute from offering an installment plan option to policyholders, requiring policyholders needing to finance their plan to use a premium finance company. However, the installment plan option was restricted to a 20% to 25% down payment. The typical plans offered by these companies include down payments as low as 10%. Maryland Auto indicated that the high down payment associated with these plans discouraged use of the option and, subsequently, Chapter 453 of 2022 allowed lower down payments (to 18%) in the Maryland Auto installment plan effective October 1, 2022. In November 2022, Maryland Auto indicated that the agency expects this change to increase the number of subscribers under the installment plan, but that time would be needed to observe any improvements attributable to this change. **DLS recommends adopting committee narrative requesting a report on further policy changes that may be considered to address rate inadequacy and surplus decline.**

## **2. Uninsured Financials and Surplus**

While the Insured Division is supported by premiums, the Uninsured Division is supported primarily by funds from the Motor Vehicle Administration (MVA) uninsured motorist fine per Section 17-106 of the Transportation Article. **Exhibit 8** illustrates that the Uninsured Division has a lower surplus overall, and although the surplus increased in most years from calendar 2011 to 2019, it has taken a downward turn since calendar 2020.

**Exhibit 8**  
**Surplus Funds as of December 31 of Each Year**  
**Uninsured Division**  
**Calendar 2007-2022 Estimated**  
**(\$ in Millions)**



Source: Maryland Automobile Insurance Fund

**Uninsured Division Financials**

**Exhibit 9** presents the financial statement for the Uninsured Division, which projects income of approximately \$5.2 million and expenditures of \$5.5 million in calendar 2023, which would continue a trend evident in calendar 2021 regarding a deficit in spending.

**Exhibit 9**  
**Uninsured Division Financial Statement**  
**Maryland Automobile Insurance Fund**  
**Calendar 2021-2023**

	<u>Actual 2021</u>	<u>Estimated 2022</u>	<u>Projected 2023</u>
MVA Fines	\$4,221,157	\$4,311,911	\$4,441,268
Collections on Notes and Judgments	735,998	729,862	760,000
Investment Income, net	-13,510	-125,129	-
Other Income	14,711	25,699	24,000
MVA Amnesty Program	404,121	-	-
<b>Income</b>	<b>\$5,362,477</b>	<b>\$4,942,343</b>	<b>\$5,225,268</b>
Claims Incurred	\$2,690,577	\$1,337,852	\$1,354,037
Claims Expenses Incurred	1,892,698	917,699	919,314
Collection Expenses	653,118	675,134	675,727
Administrative Expenses	1,985,975	2,559,971	2,533,030
MVA Amnesty Program	549,957	-	-
<b>Expenditures</b>	<b>\$7,772,325</b>	<b>\$5,490,656</b>	<b>\$5,482,108</b>
<b>Net Gain/Loss</b>	<b>-\$2,409,848</b>	<b>-548,313</b>	<b>-256,840</b>
Beginning Surplus	\$5,050,358	\$2,576,418	\$1,854,494
Net Income	-2,409,848	-548,313	-256,840
Unrealized Gain/Loss Change	-64,092	-173,611	-
<b>Ending Surplus</b>	<b>\$2,576,418</b>	<b>\$1,854,494</b>	<b>\$1,597,654</b>

MVA: Motor Vehicle Administration

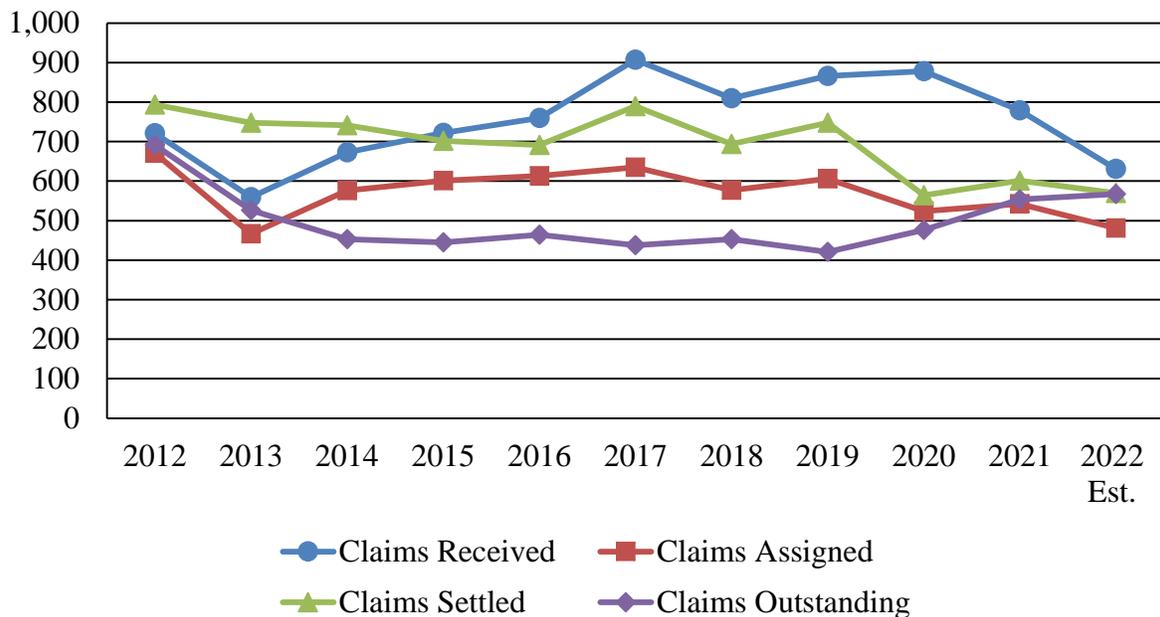
Note: The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All calendar 2022 and 2023 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

Although it appears that the surplus was in recovery before calendar 2020, the pandemic may have impacted the ability of debtors to pay, along with changes in debt repayment options described, including an interest amnesty program (over the year 2022) that allowed debtors to pay off their debt at a reduced amount. This resulted in approximately \$70,000 collected. However, total uninsured claims filed also appear to be decreasing. As shown in **Exhibit 10**, the estimated

calendar 2022 claims volume is the lowest since 2013, dropping from 878 in calendar 2020 to 631 in calendar 2022. This is while claims assigned and settled remained in the range of 500 to 600. Claim volumes moving forward from calendar 2020 may reflect fewer numbers of drivers on the road as well as changes in operations that limit the number of cases that can be processed by existing staff. While court closures during the pandemic may also have impacted the number of claims that could be processed, increases in outstanding claims may reflect the long-running problem in the Uninsured Division of unpaid debts for individuals found responsible for filed claims.

**Exhibit 10**  
**Uninsured Division Claims Activity**  
**Calendar 2012 to 2022 Est.**



Source: Maryland Automobile Insurance Fund

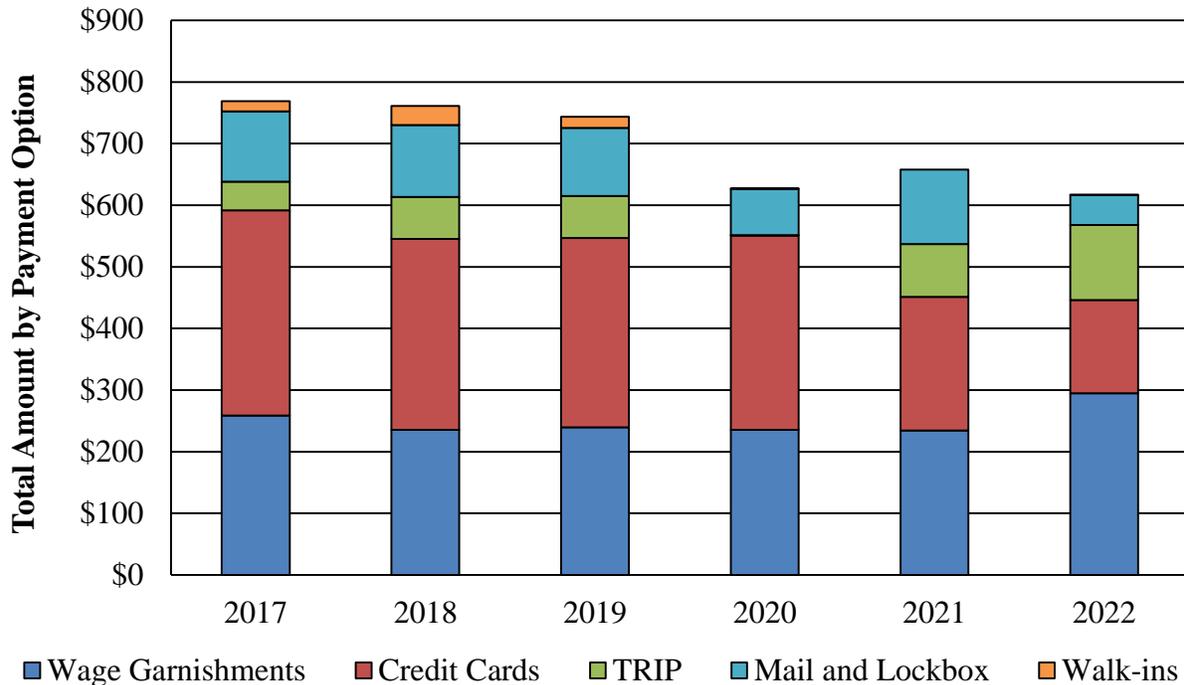
## Uninsured Division Collections

Difficulty in collecting debts from uninsured drivers was a problem that the Maryland Auto Uninsured Division was designed to help ease by managing the claim and collection process for individuals hurt in auto accidents where an uninsured driver is at fault. While it does serve a mitigating function for hundreds of victims each year, there is a yearly compounding of losses. Approximately \$2 million in unpaid claims is in active repayment, while unpaid and unpursued

losses were estimated by Maryland Auto at around \$61 million. Maryland Auto estimates that around 11% of judgements resulting in claims handled by Maryland Auto are against incarcerated individuals. For nonincarcerated individuals, there are a number of options for repayment of these debts, but two recent changes have impacted the means by which debts are paid or collected and the yearly total recovered.

Chapter 150 of 2020 eliminated the driver’s license suspension for unpaid debts, effective October 1, 2020. Maryland Auto indicates that this change potentially removed an incentive toward repayment and led to a substantial decrease in voluntary payments made via credit cards, mail, or in-person delivery. For example, as shown in **Exhibit 11**, between October 2020 and October 2022, the dollar value of collections made by credit card decreased by 52%. However, since that time, there have been increases in both wage garnishments and tax return interceptions as unpaid debts are sent to collections with the Department of Budget and Management’s Central Collections Unit (CCU).

**Exhibit 11**  
**Uninsured Division Collections**  
**October 2017 to October 2022 Year to Date**  
**(\$ in Thousands)**



TRIP: State Tax Refund Intercept Program

Source: Maryland Automobile Insurance Fund

*D70J00 – Maryland Automobile Insurance Fund*

Not included in Exhibit 11 is an amnesty program for uninsured motorist fines that ran from July 2019 through July 2021 to provide debtors the option to repay their debt at a reduced amount. This was a partnership between Maryland Auto, the Motor Vehicle Administration, and CCU. It allowed eligible debt holders to have 80% of their outstanding debt forgiven if they could pay the remaining 20%. The total amount of debt recovered through this program, net of expenses, was reported to be approximately \$3.7 million with over \$30 million forgiven.

## ***Operating Budget Recommended Actions***

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1. Adopt the following narrative:

**Policy Options to Address Surplus Decline:** The committees are concerned about the long-standing issues related to the surplus of the Insured Division and the secondary and contributing difficulties that exist related to policy cancellation and rate inadequacy. Although it is too soon to determine the impact of the recent changes to the installment plan option, the committees request that the Maryland Automobile Insurance Fund (Maryland Auto) prepare a report summarizing:

- reasons for the long-running decline in the surplus, including discussion of any changes in the insurance market that have contributed;
- past efforts to address the decline in surplus;
- information on the number of policyholders choosing Maryland Auto’s installment plan by calendar year since calendar 2014; and
- policy or funding changes that may be considered to target the problem of surplus decline; any necessary change to statute, law, or funding; and an estimated level of impact.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Policy options to address surplus decline	Maryland Auto	November 1, 2023

**Appendix 1**  
**2022 Joint Chairmen’s Report Responses from Agency**

The 2022 *Joint Chairmen’s Report* (JCR) requested that Maryland Auto prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Employee Incentive Compensation Plan:*** Committee narrative requested information on the incentive compensation provided to employees within Maryland Auto. Maryland Auto submitted this report on November 2022, including a historical table from calendar 2017 through 2022 of incentive compensation payments across total number of employees. In calendar 2022, these payments totaled \$889,081 across 164 employees after zero such payments were made in calendar 2021.