D70J00
Maryland Automobile Insurance Fund

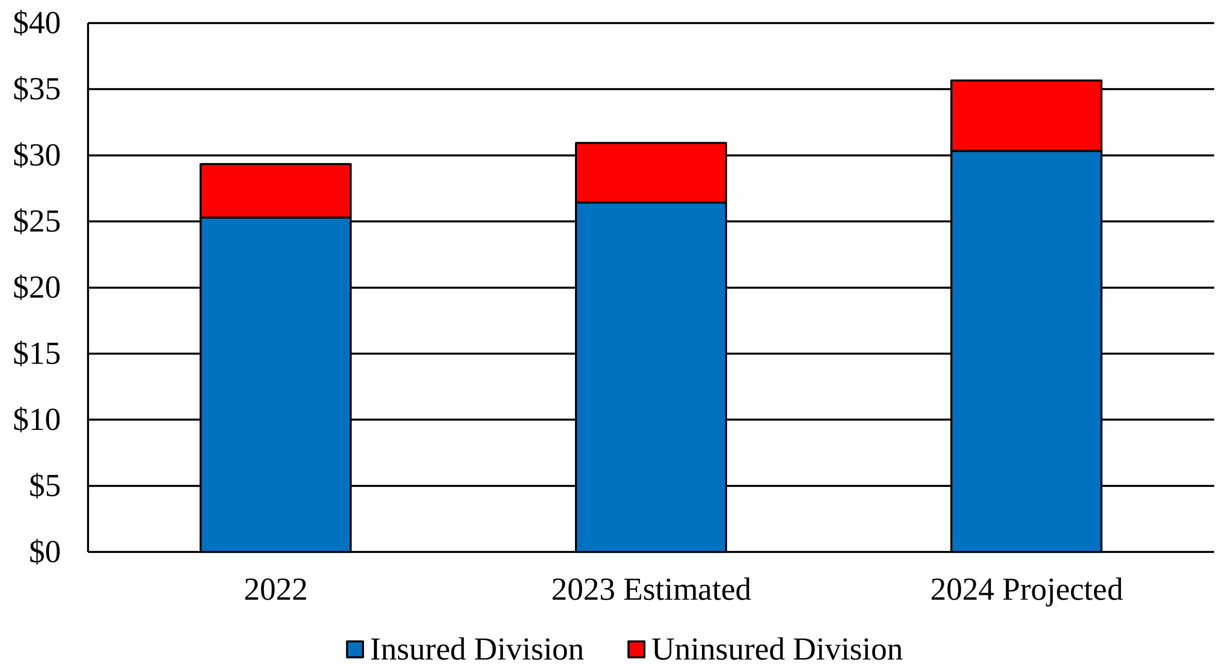
Program Description

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 in 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 under Section 17-106 of the Transportation Article.

Operating Budget Summary

Calendar 2024 Budget Increases $4.7 Million, or 15.3%, to $35.7 Million
($ in Millions)



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Calendar 2023

In January 2023, the projected end-of-year surplus for the Insured Division was $9.3 million. As a result, there was a risk an assessment would be required to support the division. To assist with the risk of assessment, Chapter 535 of 2023 provided Maryland Auto with an additional $2 million from uninsured motorist fine revenue under §17-106 of the Transportation Article and authorized access to $10.2 million from past overassessment funds. As of January 2024, the estimated calendar 2023 end-of-year surplus is $20.9 million, which is above the estimated calendar 2023 assessment threshold.

Proposed Budget Change

As shown in **Exhibit 1**, the calendar 2024 budget of Maryland Auto is expected to increase by approximately $4.7 million compared to calendar 2023. Regular and contractual personnel expenditures together increase by approximately $3.5 million. This covers costs of additional Insured Division personnel both in calendar 2023 and 2024, changes in the allocation of salary expenses related to Insured Division employees supporting Uninsured Division operations, and cost-of-living adjustments and merit-related salary increases for existing personnel. The increase in the number of personnel is driven primarily by increases in the number of policies in force.

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

	Insured Division	Uninsured Division	Nonbudgeted Fund Total
Calendar 2023 Estimated	$26,436	$4,495	$30,931
Calendar 2024 Projected	30,339	5,317	35,656
Calendar 2023-2024 Amount Change	3,902	822	4,725
Calendar 2023-2024 Percent Change	14.76%	18.29%	15.27%

Where It Goes:	Change
Insured Division	
Employee salaries and fringe benefits for 10.5 regular and contractual personnel in calendar 2024 and annualization of 15 new regular and contractual personnel in calendar 2023	$2,576
Cost-of-living adjustments and merit-related salary increases for existing personnel	440
Bank and credit card fees in the installment billing program	130
Towing services coverage	77

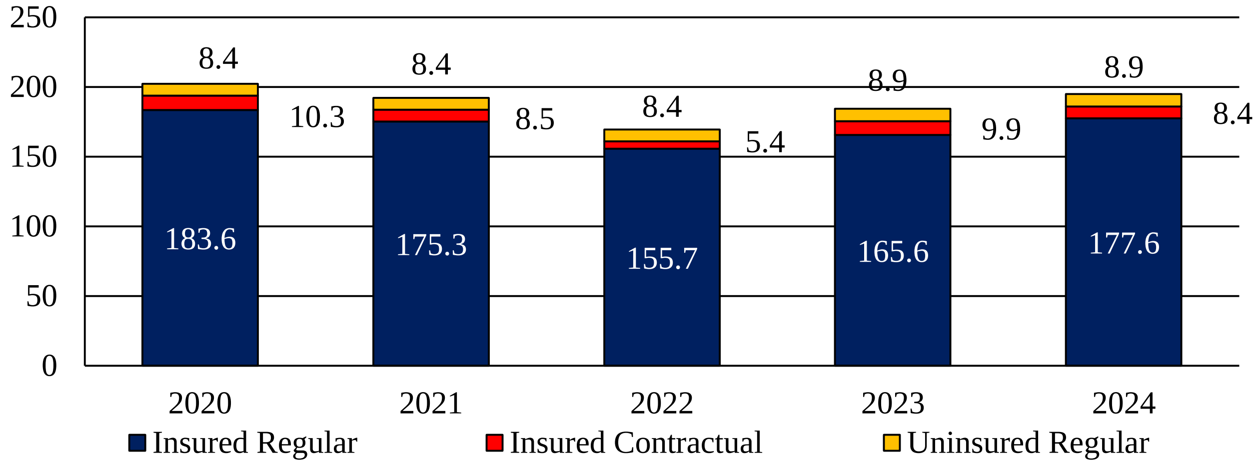
Where It Goes:	**Change**
Legal counsel contingency	60
Uninsured Division	
Allocation of employee compensation due to increased support by Insured Division employees for the Uninsured Division, including salary and fringe benefits	522
Outreach operations aimed at educating uninsured motorists on auto insurance and the option of Maryland Automobile Insurance Fund	302
Other Changes	
Contractual information technology services	450
Other	168
Total	**$4,725**

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

Personnel

While the number of personnel in the Uninsured Division has remained mostly constant in recent years, as shown in **Exhibit 2**, the Insured Division saw notable decreases in regular personnel each year through calendar 2022, largely from voluntary attrition. The total number of personnel in the Insured Division decreased nearly 17% between calendar 2020 and 2022, before recovering with an increase of 14.4 total positions (8.9%) in calendar 2023. An increase of 10.5 total positions is projected in 2024, a 6.0% increase over calendar 2023. Maryland Auto reports that an increased volume of policies and claims necessitated the increase in staffing in calendar 2023 and is anticipated in calendar 2024 for the same reason.

Exhibit 2
Agencywide Personnel Changes
Calendar 2020-2024 Projected



Note: The uninsured total includes a half-time contractual position from 2020-2023.

Source: Maryland Automobile Insurance Fund

Key Observations

1. Insured Financial Reports and Surplus History

Insured Division Financial Statement

An automobile insurance company functions by collecting premiums paid by insured drivers into a pooled resource of funds for use by these drivers to pay claim costs associated with automobile accidents in which they are involved. Policy premium prices (or rates) are determined according to industry standards involving estimated risk for individual policyholders so that sufficient funds are available to meet the needs of individuals involved in accidents. Individual risk is determined by factors such as driving history, credit score, and automobile type and value. In aggregate, this creates a level of risk for the company as a whole and a total sum of premiums available to pay for claims. This sum of premium payments available to pay claims and operating expenses is called the surplus. If premium prices are inadequate for the corresponding risk, the surplus may decline if other income does not make up the difference.

Exhibit 3 presents a financial statement of the Insured Division including actual calendar 2022 closeout figures, estimated calendar 2023 figures, and projected calendar 2024 figures as of January 2024. A comparison of estimated and actual calendar 2022 figures suggests a limited capacity to forecast financial conditions quarter to quarter. Therefore, caution is warranted when interpreting the agency's financial position based on the estimated and projected figures. Further, the calendar 2023 estimate reflects an unusual year in that substantial financial support was provided through Chapter 535. The financial estimates provided by Maryland Auto in January 2023 included a projected calendar 2023 end-of-year surplus of $9.3 million. The low level of estimated surplus led to action to bolster Maryland Auto's financial position. Chapter 535 provided an additional $2 million from uninsured motorist fine revenue (which historically has supported the Uninsured Division) and access to $10.2 million in excess assessment funds from past assessments (supporting the Insured Division).

Exhibit 3
Maryland Automobile Insurance Fund
Insured Division Financial Statement
Calendar 2022-2024 Projected

	Actual 2022	Estimated 2023	Projected 2024
Earned Premium	$53,271,007	$84,523,264	$104,222,631
Investment Income	-1,310,658	6,759,148	4,799,108
Other Income	48,798	2,070,543	85,076
Total Income	**$52,009,147**	**$93,352,955**	**$109,106,815**
Claims Incurred	$40,847,399	$68,685,070	$83,493,331
Claims Expenses Incurred	15,366,285	14,623,563	19,771,505
Other Expenditures	16,452,169	21,997,830	23,339,812
Total Expenditures	**$72,665,853**	**$105,306,463**	**$126,604,648**
Net Income (Loss)	**-$20,656,706**	**-$11,953,508**	**-$17,497,833**
Beginning Surplus	$52,332,126	$24,379,543	$20,949,790
Net Income (Loss)	-20,656,706	-11,953,508	-17,497,833
Unrealized Gain/Loss Change	-7,167,812	-1,872,287	0
Change to Nonadmitted Assets	-128,065	207,647	90,000
Release of Overrecoupment	0	10,188,395	0
Ending Surplus	**$24,379,543**	**$20,949,790**	**$3,541,957**
Assessment Threshold	$15,178,078	$19,131,251	$24,143,445
Ratio Surplus to Assessment Threshold	**1.61**	**1.10**	**0.15**

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 2023 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

The bulk of revenue for the Insured Division is derived from policy premiums. With a significant increase in the number of policies in force from calendar 2022 to 2023 came a corresponding increase of 58.7% in premium revenue, from $53.3 million in calendar 2022 to an estimated $84.5 million in calendar 2023. A further 23.3% increase in premium revenue is forecasted for calendar 2024. Other income sources include investment income. In calendar 2023, over-recouped assessment funds made accessible through Chapter 535 also supported the overall balance sheet of the Insured Division.

While there was only a very slight change between the estimated and actual calendar 2022 earned premium, investment income was drastically lower than forecasted in the 2023 session. Rather than a modest gain, investment accounts saw a loss of $1.3 million. However, in calendar 2023, investment income is estimated to outperform the previous year at an estimated $6.8 million. Other income in calendar 2023 reflects the $2 million increase in Motor Vehicle Administration (MVA) fine revenue authorized through Chapter 535. The availability of the increased portion of the MVA fine revenue for use in the Insured Division is notable, as it differs from the traditional allocation of these funds to the Uninsured Division.

Despite the improvements in revenue, Maryland Auto had an estimated net loss of $12 million in calendar 2023. Although substantial, this reflects a decrease in operating losses of 42.1% compared to calendar 2022. Even with the addition of $10.2 million in overrecoupment funds due to Chapter 535, the net loss resulted in a further decline of the surplus from $24.4 million at the end of calendar 2022 to an estimated $20.9 million at the end of calendar 2023. However, the surplus remains above the assessment threshold. Even with a higher assessment threshold of $19.1 million, the ending surplus-to-assessment ratio is estimated at 1.10.

The forecast for calendar 2024 anticipates a similar story for revenues and expenditures but without the additional funding from Chapter 535. From calendar 2023 to 2024, a 23.3% increase in premium revenue to $104.2 million is paired with increases in all expenditure categories, for a total increase of 20.2% to $126.6 million. Due to the increase in expenditures exceeding anticipated revenue growth, Maryland Auto projects a net loss of $17.5 million, leaving a projected surplus of $3.5 million. This forecasted ending surplus is significantly below the assessment threshold of $24.1 million (a ratio of 0.15), suggesting that an assessment will be triggered during financial closeout in early calendar 2025 according to Maryland insurance statute.

Committee narrative in the 2023 *Joint Chairmen's Report* (JCR) requested that Maryland Auto submit a report summarizing reasons for the long-running decline in the surplus, efforts to address the decline, and further additional actions that could be taken to address the decline. Along with options that would expand the customer base, Maryland Auto outlined three alternatives to increase State funding to one or both divisions:

- Increase the portion of uninsured motorist penalty fines under Transportation Article §17-106 to 20% of the total uninsured motorist penalty fees. The share is designed to increase each year by the Consumer Price Index (CPI). In calendar 2022, the share was $4.3 million and, in calendar 2023, $4.5 million. In 2023, a 20% increase would have been

$7 million more in general funds. This does not affect other funds receiving a percentage of the fee revenue but means less residual fee revenue allocated to the General Fund.

- Amend the Insurance Article to allow for an new surcharge to each insurer based on the number of policies. For example, a $4 fee per vehicle would raise more than $20 million per year.

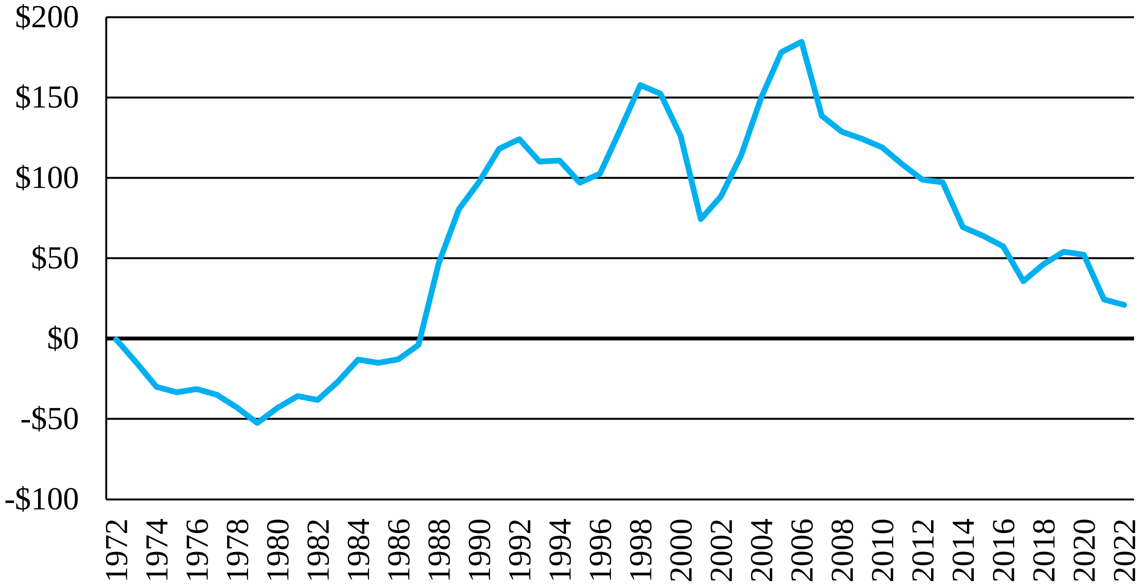
- Amend §13-954 of the Transportation Article to allow for an additional charge to register a vehicle. A $1 to $5 surcharge would generate $5.2 million to $26 million annually depending on the size of the charge.

Given the challenges with the anticipated surplus, the Department of Legislative Services (DLS) recommends adopting committee narrative requesting updated financial statements be submitted quarterly to allow for additional monitoring of conditions.

Insured Division Surplus History

The Insured Division surplus experienced a mostly upward trend after the last assessment in 1989, which generally continued until calendar 2007, broken only by a downturn in calendar 2001 before recovery by calendar 2006. However, as shown in **Exhibit 4**, the Insured Division surplus has experienced an uninterrupted downward trend from the peak of almost $185 million in calendar 2007 to $35.6 million in 2018, a decline of more than 80%. In calendar 2020, the surplus recovered to $54 million and declined only marginally to $52 million in calendar 2021. However, after these two years of modest recovery, the surplus at the end of calendar 2022 had fallen to $24 million, its lowest level since 1988. As of January 2024, the estimate of the calendar 2023 closing surplus is $20.9 million.

Exhibit 4
Surplus Funds as of December 31 of Each Year
Insured Division
Calendar 1972-2023 Estimated
($ in Millions)

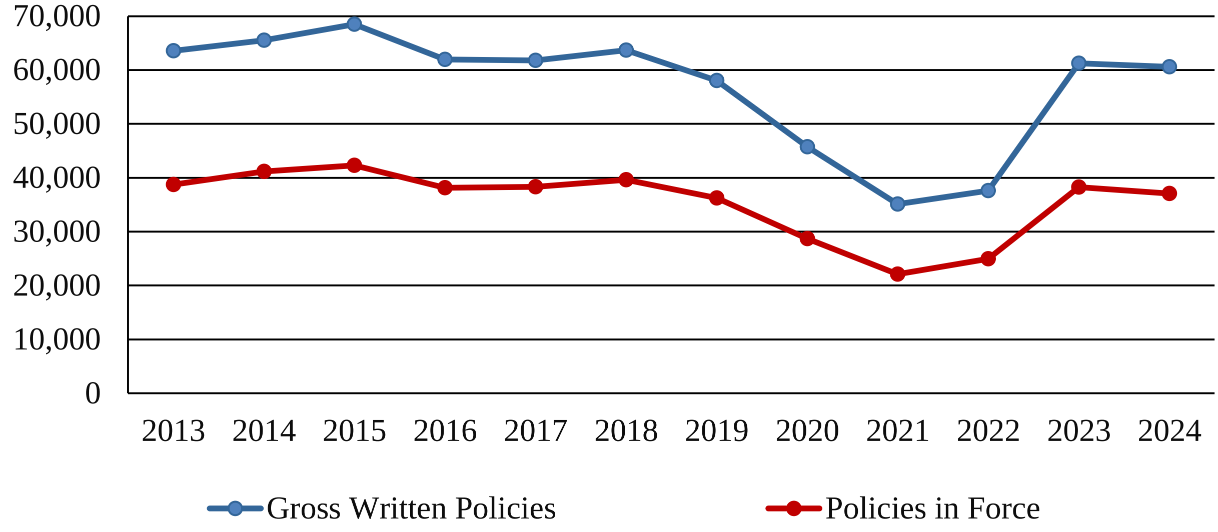


Source: Maryland Automobile Insurance Fund

Policies

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. However, the number of gross written policies and policies in force increased by 7% and 13%, respectively, from calendar 2021 to 2022. In December 2022, Maryland Auto was uncertain whether increases in 2022 would continue in calendar 2023, but data provided in December 2023 show significant increases in the number of policies written and in force. The calendar 2023 estimates include a 62.9% increase in written policies and a 53.2% increase in policies in force. Market conditions and changes to regulation regarding installment plans may be partially responsible for these increases. The trend suggests a calendar 2023 return to prepandemic levels on policies, at only 3.8% fewer policies written and 3.5% less policies in force in comparison to 2018.

Exhibit 5
Policies Issued by Insured Division
Calendar 2013-2024



Note: Calendar 2023 values are estimates as financial closeout for the year is incomplete. Calendar 2024 values are projections for 2024 end-of-year totals.

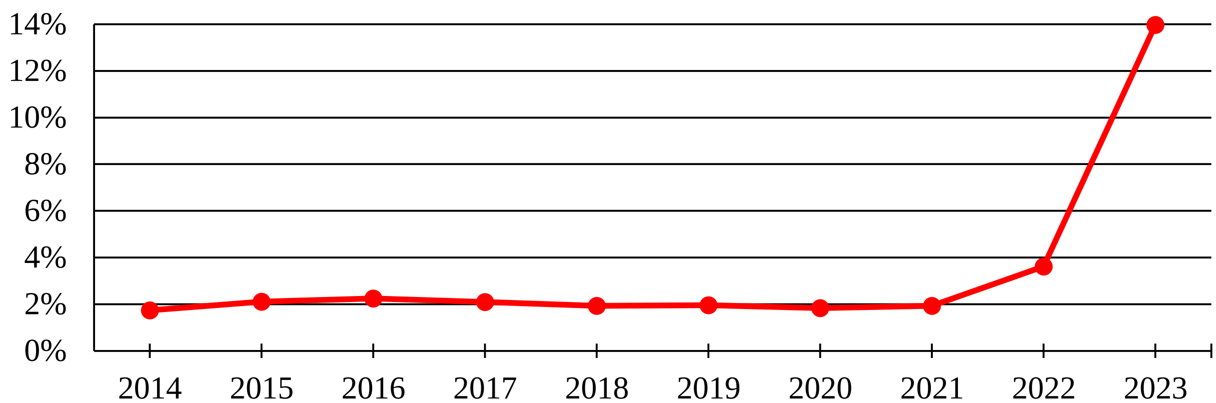
Source: Maryland Automobile Insurance Fund

Installment Plan

There are several options for Maryland Auto policyholders to pay for their policies. This variety of payment options is intended to make it easier for individuals to obtain and maintain insurance. One of these options is an installment plan managed by Maryland Auto. Maryland Auto was prohibited by statute from offering an installment plan option to policyholders until Chapter 334 of 2013 authorized Maryland Auto to begin offering installment payment plans beginning October 1, 2013. In lieu of installment plans, policyholders who needed to finance a plan needed to use a premium finance company. Although installment plans have now been authorized for over a decade, some policyholders continue to finance through third-party companies that typically require lower downpayments. Under Chapter 334, the installment plan option offered by Maryland Auto was restricted to a 20% to 25% down payment, while typical plans offered by premium finance companies include down payments as low as 10%. Maryland Auto indicated that the high down payment associated with its installment plans discouraged use of the option. Subsequently, Chapter 453 removed the 2013 statutory installment plan restrictions and allowed Maryland Auto to develop a reasonable installment payment plan option. Following this change, Maryland Auto set a private passenger installment plan of 18% down payment and nine installment payments.

In November 2022, Maryland Auto indicated that the agency expected the change to increase the number of subscribers under the installment plan, but that time would be needed to observe any impacts attributable to this change. As shown in **Exhibit 6,** as of November 2023, Maryland Auto reported a significant increase between calendar 2022 and 2023 in the number of policyholders choosing the Maryland Auto installment plan option. The percent of policies paid through the Maryland Auto installment payment plan increased steadily over calendar 2023, starting from 3.6% at the end of calendar 2022 to 14% in August 2023. Maryland Auto has been optimistic that expanding the customer base and increasing policies written and in force will support premium revenue and, thereby, the surplus.

Exhibit 6
Installment Plans as a Percentage of All Payment Plans
Calendar 2014-2023 Estimated



Source: Maryland Automobile Insurance Fund

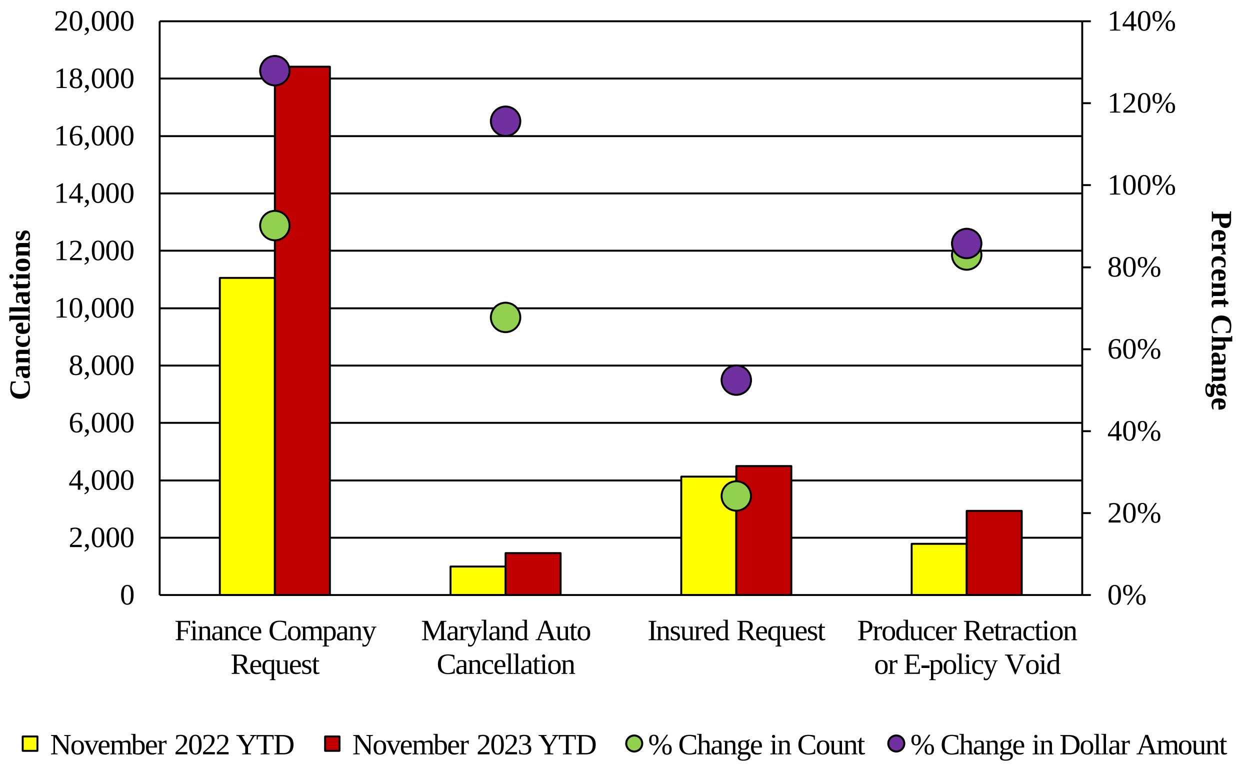
As part of the response by Maryland Auto to the 2023 JCR committee narrative, Maryland Auto provided policy alternatives to consider that could further expand its customer base. These options included elimination of one or both of the requirements that customers be turned down by two mainstream insurance companies and that Maryland Auto notify and encourage policy holders to return to the mainstream market after a three-year clean driving record.

Policy Cancellations

Most cancellations initiated by the insured party are reported as either due to finding insurance elsewhere or the transfer of the vehicle to another owner. The large shares of cancellations initiated by premium finance companies and policy producers indicate a significant portion of accounts held by individuals initially determined to be eligible but subsequently determined to be ineligible or for whom the down payment or ongoing premium was beyond their ability to pay.

As shown in **Exhibit 7**, from calendar 2022 to 2023 (for totals through November of each year), the percent change in dollars canceled is notably higher than the percent change in number of policies canceled in nearly all cancellation types. The total percent increase in dollars canceled is 71.6%, while the total percent increase in policies canceled is 52.1%. This may suggest a higher probability of cancellation for higher premiums. An increased number of policies written and in force in calendar 2023 likely translated also to an increase in cancellations. Cancellations from premium finance requests represent the area of largest growth between years, an increase of 66.6% compared to the 52.1% total increase.

Exhibit 7
Policy Cancellations
November 2022 YTD versus November 2023 YTD



YTD: year to date

Source: Maryland Automobile Insurance Fund

Maryland Auto should comment on the extent to which uncertainty related to policy cancellations influences income and expenditure projections. Maryland Auto should also comment on the relationship between claim risk and policy cancellation demographics, indicating whether higher risk, higher premium policies are the most frequently canceled.

Rate Adequacy and Rate Setting

After concerns were raised during the 2023 session regarding Maryland Auto's rate setting and the adequacy of premium rates to cover claim costs and support the surplus, the committees requested that the Maryland Insurance Administration (MIA) evaluate and report on the sustainability of the rate setting model employed by Maryland Auto and provide policy recommendations to address issues identified. MIA submitted the requested report on Maryland Auto's rate setting along with policy options to consider. In addition, MIA also commented on the policy alternatives suggested by Maryland Auto.

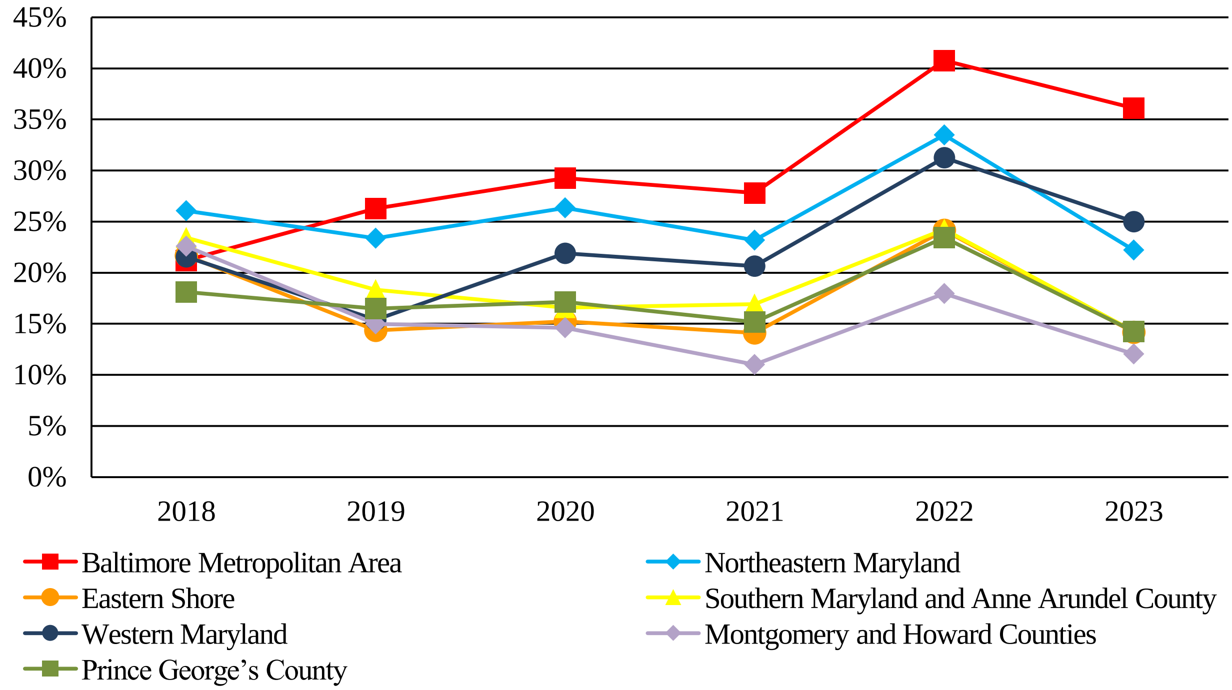
By construction, premium rates at Maryland Auto are discounted to make them accessible to individuals with higher risk profiles who cannot afford policies in the mainstream market. In addition to other factors used in rate setting, Maryland Auto rate setting is based on the median household income in each zip code and does not reference private market prices as a benchmark. The rule is derived from a 2% affordability index adopted by the U.S. Department of the Treasury, Federal Insurance Office. Maryland Auto has reported that this policy was in effort to define the statutory term "affordable" and provide a quantitative scale of "affordability" for operational analysis, statutory compliance, and decision making. In contrast, residual market programs in other states generally use the private market rates as a benchmark. According to MIA, only New York uses some form of affordability criteria. Maryland Auto also does not use credit score as a rating factor, though Maryland law allows this in a limited fashion and most other insurers do consider credit scores in rate setting.

The goal of affordability complicates Maryland Auto's effort to maintain the surplus. Even without meeting the affordability goal in all jurisdictions, rates have not been adequate to cover claims in the aggregate. In November 2023, Maryland Auto reported that a statewide rate increase of 31.9% would be needed to close the gap. This would mean increases of 41.5% in the Baltimore Metro Area and 29% in Prince George's County. However, rate adequacy is impacted by conditions other than the actual premium rates.

The number of policies and their risk profiles as well as the actual number and costs of claims filed are factors that impact total premium revenue and claim costs. The total combined claim and operating costs not covered by premium payments divided by total costs results in a ratio or percentage that represents rate adequacy. For example, if total premium income covers 90% of total costs, then there is 10% of costs not covered, and rates are therefore inadequate by 10%. Inadequate rates ultimately contribute to a decline in surplus if other income cannot cover the difference.

Exhibit 8 shows that in most years, the inadequacy of rates is most severe in Baltimore City and the Northeastern Maryland region. While rate adequacy decreased at varying levels in all areas of the State in calendar 2022, the estimates for calendar 2023 show a return to calendar 2020 and 2021 levels in most regions. Maryland Auto indicated that the calendar 2022 increase was primarily due to increases in claim severity and costs; however, DLS notes an improvement in rate adequacy despite claim costs and the number of claims increasing further in calendar 2023. One factor may be a rate increase that went into effect in August 2023.

Exhibit 8
Rate Adequacy by Percent of Costs Not Covered Across Maryland
Calendar 2018-2023 Estimated



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, Prince George's 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

Maryland Auto implemented a 6.8% overall rate increase in calendar 2019, before having no rate increases during the pandemic. A recent increase of 11.1% in private passenger rates for some rating zones went into effect August 25, 2023. Maryland Auto reports that it has raised rates carefully and selectively out of concern that raising rates can result in a loss of customers and increase the number of uninsured motorists in the State.

However, in the report submitted in response to the committee narrative in the 2023 JCR requesting an evaluation of Maryland Auto rate setting, MIA advised that Maryland Auto is unusually large for a residual market mechanism and the rate of uninsured drivers tracked by MVA has not increased in a year in which Maryland Auto has increased rates.

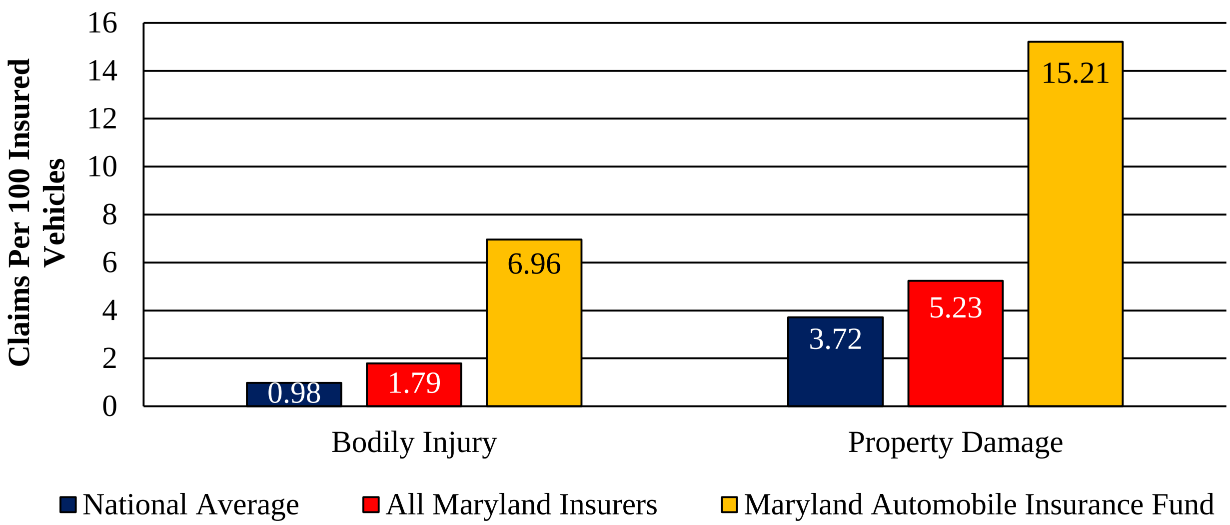
MIA's recommendations for addressing surplus decline and rate adequacy included adjusting methodology and increasing rates, aligning eligibility criteria with that of other states and better enforcing existing regulations regarding eligibility, or restructuring the fund as a private market residual mechanism like that of other states. At the same time, MIA agreed with Maryland Auto in offering for consideration an increase in the MVA uninsured motorist penalties under §17-106 of the Transportation Article, but MIA also recommended considering a deeper review of Maryland Auto's financial oversight, rating, eligibility, operational expenses, and expense ratios.

Maryland Auto should comment on how the number of policies in force contributes to rate adequacy and the leading factors contributing to an improvement in rate adequacy in calendar 2023.

Adverse Claim Development

In response to committee narrative in the 2023 JCR requesting a report on policy options to address surplus decline, Maryland Auto reported on the overall higher risk exposure it must manage in comparison to the industry average. Maryland Auto manages more claims per 100 insured vehicles and at higher costs for both categories of bodily injury and property damage. As shown in **Exhibit 9**, in January 2023, the number of bodily injury claims for Maryland Auto policies was close to four times the State average and number of property damage claims nearly three times the State average.

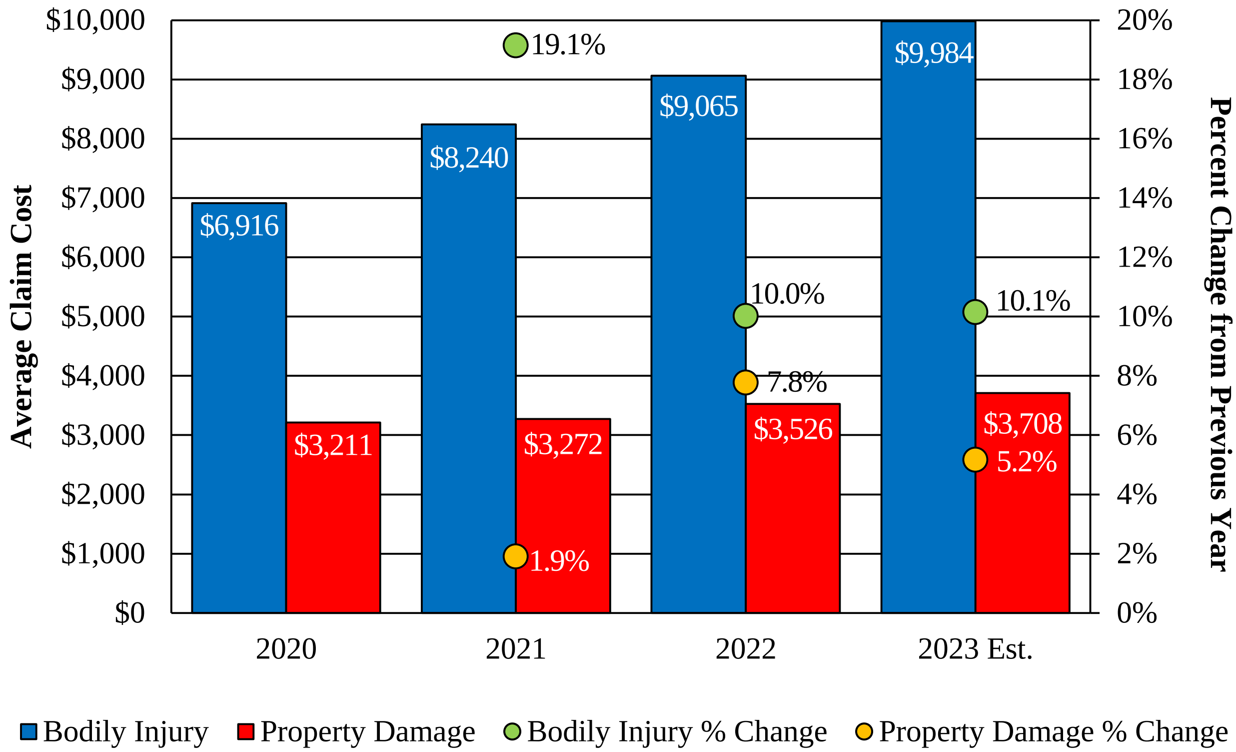
Exhibit 9
Risk Exposure
January 2023



Source: Maryland Automobile Insurance Fund; National Association of Insurance Commissioners

In addition, Maryland Auto reported yearly increases in costs per claim since at least calendar 2020, as illustrated in **Exhibit 10**. Percent change in average bodily injury claim costs ranged from 10% to 20%, outpacing inflation in all years. Percent change in property damage costs ranged from just under 2% in 2021 to an over 5% estimated increase in calendar 2023, outpacing inflation in 2022 and 2023. Maryland Auto reported that increases in claim costs are from inflation and the apparent increasing severity of reported damages.

Exhibit 10
Average Claim Cost
Calendar 2020-2023 Estimated



Source: Maryland Automobile Insurance Fund

2. Uninsured Financial Reports and Surplus History

Uninsured Division Financial Statement

Exhibit 11 presents the financial statement for the Uninsured Division as of January 2024. The Uninsured Division is supported primarily by funds from the MVA uninsured motorist fine per Section 17-106 of the Transportation Article, which states that the MVA funding allotted to the Uninsured Division increases each year by the CPI for all urban consumers. Accordingly, Maryland Auto experienced increases of 4% from calendar 2022 to 2023 estimated and a projected 3% from calendar 2023 to 2024. The other primary sources of income for the division include collections on claims filed and settled in court (notes and judgements) along with investment dividends. Income from collections changed only marginally, but notably negative, decreasing 8.2% from 2022 to 2023, with projected recovery of 2.6% in calendar 2024. At the same time, as in the Insured Division, investment income outperformed forecasts. Claim costs reflect increases similar in magnitude to those in the insured division.

The total cost of claims incurred increased 125% from $1.3 million in 2022 to an estimated $2.9 million in calendar 2023. All other costs increased by at least 5.9%. The combination of faster growth in expenses than revenues resulted in an estimated net loss of $2.2 million, leaving a negative ending surplus of $358,707. Projections for calendar 2024 are that the cost of claims incurred and collection expenses will decrease. However, total expenditures are still projected to be greater than income for a net loss of $1.8 million against an already negative surplus as of the end of calendar 2023. This would mean a negative surplus of $2.2 million at the end of calendar 2024. Notably, the $2 million in MVA uninsured fine revenue would have covered most of the net loss of the Uninsured Division in calendar 2023. However, during the 2023 session, the Uninsured Division surplus was expected to be sufficient through calendar 2023.

Exhibit 11
Uninsured Division Financial Statement
Maryland Automobile Insurance Fund
Calendar 2022-2024 Projected

	Actual 2022	Estimated 2023	Projected 2024
MVA Fines	$4,311,911	$4,485,228	$4,619,785
Collections N&J	731,559	671,436	688,700
Investment Income, Net	-319,355	214,807	0
Other Income	28,545	36,638	24,000
Total Income	**$4,752,660**	**$5,408,109**	**$5,332,485**
Claims Incurred	$1,297,941	$2,918,998	$2,411,758
Claims Expenses Incurred	1,328,669	1,406,477	1,448,672
Collection Expenses	654,329	744,886	693,858
Admin Expenses	2,268,355	2,525,239	2,575,743
Total Expenditures	**$5,549,294**	**$7,595,600**	**$7,130,031**
Net Income (Loss)	**-$796,634**	**-$2,187,491**	**-$1,797,546**
Beginning Surplus	$2,576,418	$1,828,784	-$358,707
Net Income (Loss)	-796,634	-2,187,491	-1,797,546
Unrealized Gain/Loss Change	49,000	0	0
Ending Surplus	**$1,828,784**	**-$358,707**	**-$2,156,253**

Collections N&J: Collections Notes and Judgements (court ordered damages collected from responsible parties and paid to victims)
MVA: Motor Vehicle Administration

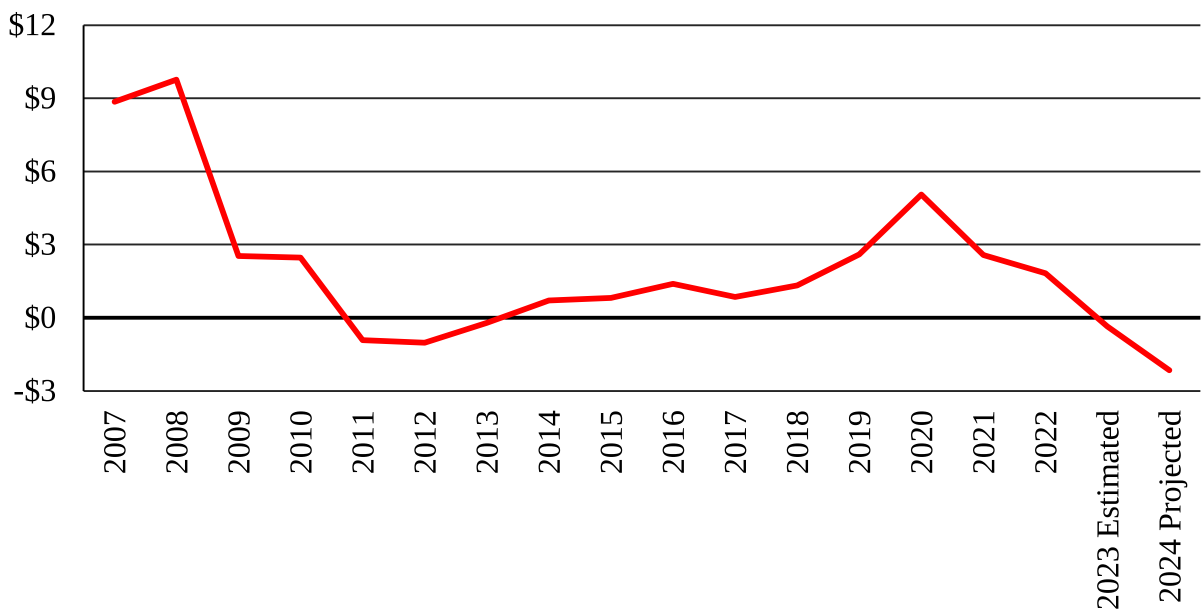
Note: The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All calendar 2023 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

Uninsured Division Surplus History

As shown in **Exhibit 12**, the Uninsured Division surplus increased in most years from calendar 2011 to 2019. However, this surplus has taken a downward turn since calendar 2020. As of January 2024, Maryland Auto forecasted a calendar 2023 negative closeout balance of $358,707 and a further negative balance in calendar 2024 of $2.2 million. The uninsured surplus had not been below $800,000 since prior to calendar 2014. From calendar 2011 to 2013, the surplus in the Uninsured Division was negative, resulting in part from the transfer of $11 million from the division to the General Fund.

Exhibit 12
Surplus Funds as of December 31 of Each Year
Uninsured Division
Calendar 2007-2024 Projected
($ in Millions)

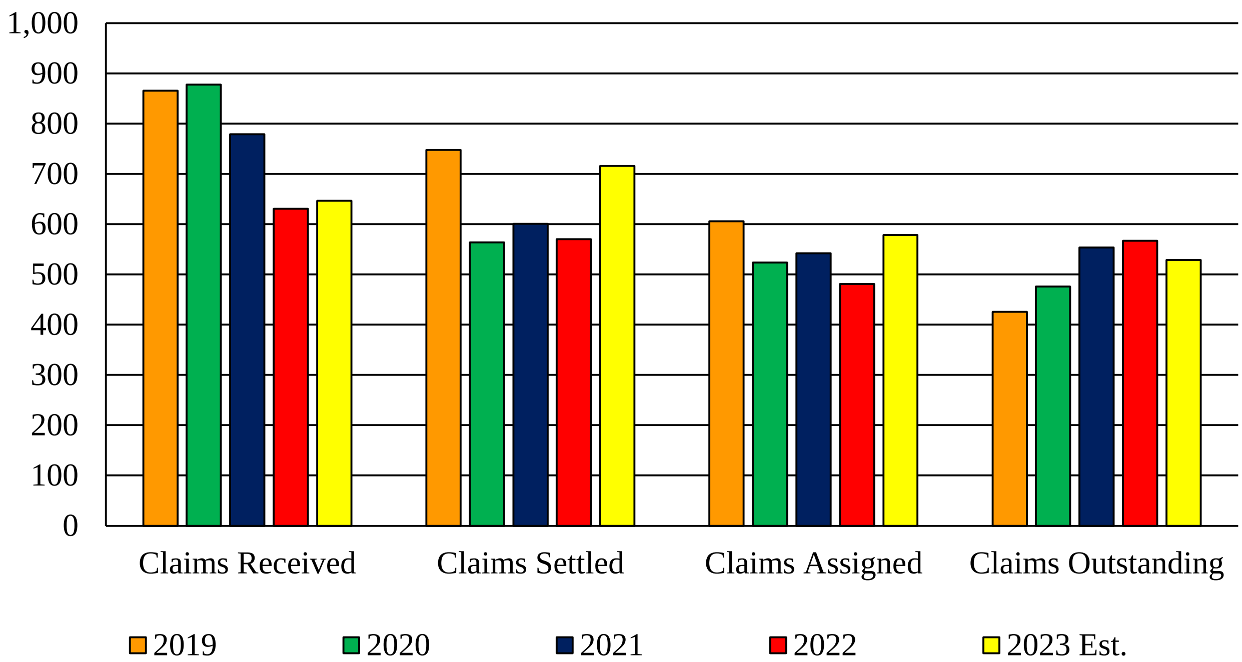


Source: Maryland Automobile Insurance Fund

Uninsured Claims

As shown in **Exhibit 13**, the total number of uninsured claims received decreased from calendar 2020 to 2022. Calendar 2022 saw the lowest volume of claims received since calendar 2013. The estimated calendar 2023 volume of claims (647) received is 2.5% higher than calendar 2022 (631). Despite the modest increase from calendar 2022, the calendar 2023 total remains below that of calendar 2014. However, claims settled and assigned in calendar 2023 are estimated to recover to near prepandemic levels.

Exhibit 13
Uninsured Division Claims Activity
Calendar 2019-2023 Estimated



Source: Maryland Automobile Insurance Fund

Outstanding claims increased by 11.7% from calendar 2019 to 2020, 16.4% from calendar 2020 to 2021, and 2.3% from calendar 2021 to 2022. While court closures during the pandemic may also have impacted the number of claims that could be processed, resulting in backlogs, increases in outstanding claims may also reflect a long-running problem in the Uninsured Division of arranging for and managing the payment of debts for individuals found responsible for claims. For example, Maryland Auto noted that a percentage of outstanding claims involve incarcerated individuals. The estimate for calendar 2023 would represent the first decrease in outstanding claims since calendar 2019.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Quarterly Financial Statements for Insured and Uninsured Divisions: Annually, the Maryland Automobile Insurance Fund (Maryland Auto) provides end-of-year financial statements including revenue, expenditure, and surplus figures for the closed-out, preceding year; estimates for the current year beginning at closeout; and projections for the immediate year ahead. Most revenue is derived from premiums in the Insured Division and a mandated appropriation of uninsured motorist fines under Section 17-106 of the Transportation Article for the Uninsured Division. However, both divisions derive revenue from investment dividends, which depend on investment portfolio decisions as well as stock market conditions. Comparisons of estimates to closeout and projections to end-of-year estimates suggest limited ability to forecast financial conditions for the full year. Given ongoing concerns about the financial stability of the agency and surplus levels in both divisions, the committees request quarterly updated financial statements for both divisions. The first report should cover data for the first two quarters of calendar 2024, and each subsequent report should cover the prior quarter.

Information Request	Author	Due Date
Quarterly financial statements for Insured Division and Uninsured Division	Maryland Auto	July 15, 2024 October 15, 2024 January 15, 2025 April 15, 2025

Appendix 1
2023 *Joint Chairmen's Report* Responses from Agency

The 2023 JCR requested that Maryland Auto prepare two reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Policy Options to Address the Surplus Decline:*** Committee narrative requested a report summarizing reasons for the long-running decline in the surplus, efforts to address the decline, and further ameliorating alternatives for consideration. Maryland Auto submitted the report on November 1, 2023. It included updated financial and operational data and discussed several policy options aimed at increasing the customer base or increasing funding through new fees or an increased portion of the MVA uninsured motorist fine revenue. Further discussion of policy options outlined in this report can be found in Key Observation 1.

- ***10-year Surplus Histories for Both Divisions:*** Committee narrative requested a 10-year history of the surplus and surplus-to-assessment ratio of each of the two divisions of Maryland Auto. The narrative also requested consideration of an amnesty program similar to that which ended in calendar 2021. Maryland Auto submitted this report on November 1, 2023. It included the requested historical data and advised against a third amnesty program. Further discussion of the data contained in this report can be found in Key Observation 1 (for the Insured Division) and Key Observation 2 (for the Uninsured Division).