

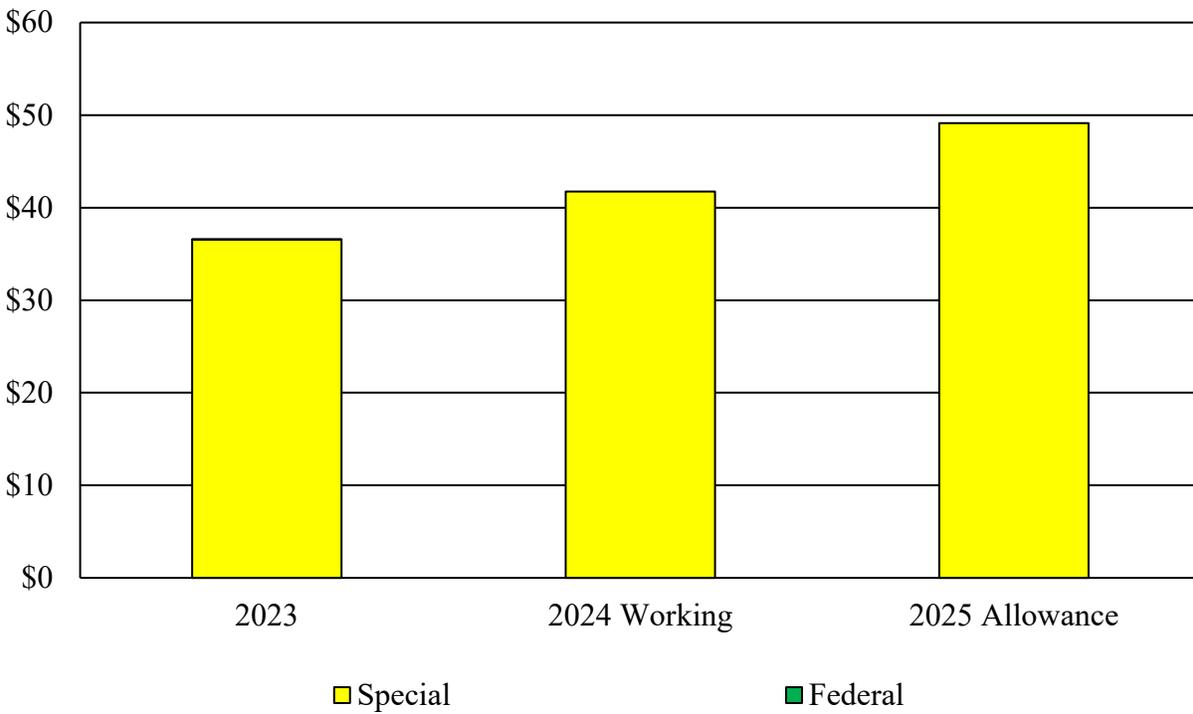
D80Z01
Maryland Insurance Administration

Program Description

The Maryland Insurance Administration (MIA) is responsible for licensing and regulating insurers, insurance agents, and brokers who conduct business in the State and for monitoring the financial solvency of licensed insurers. MIA is also responsible for collecting taxes levied on all premiums collected by insurance companies within the State. It operates under the authority of the Insurance Article, Title 2, of the Annotated Code of Maryland. MIA is a special-funded State agency supported entirely through fees and assessments on the insurance industry.

Operating Budget Summary

**Fiscal 2025 Budget Increases \$7.4 Million, or 17.7%, to \$49.1 Million
(\$ in Millions)**



Note: Fiscal 2023 actual spending includes \$35,566 in federal funds. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

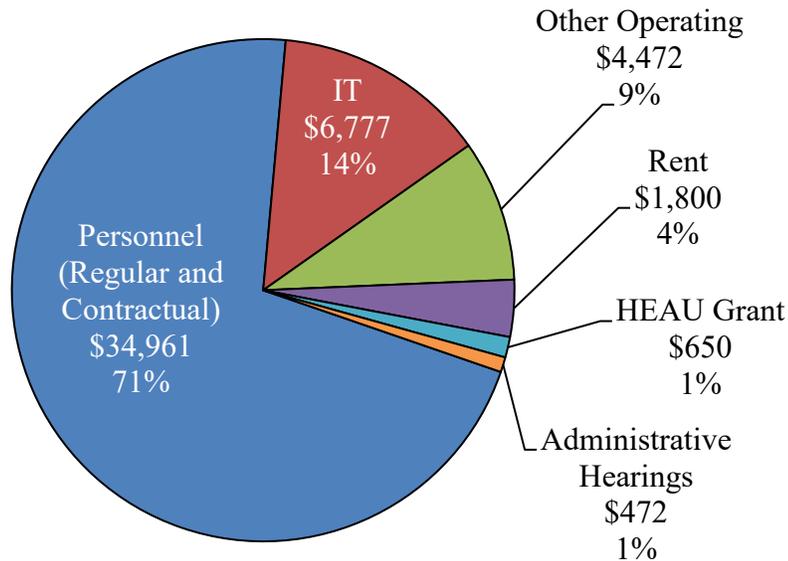
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Fiscal 2025 Overview of Agency Spending

The fiscal 2025 allowance for MIA totals approximately \$49.1 million. As shown in **Exhibit 1**, the largest portion of the allowance is dedicated to personnel at \$35 million, or 71%. Information technology (IT) costs account for 14% of the budget and include new funding to implement project development plans designed in fiscal 2024. Other operating costs provide new funding for contracts for management studies and oversight programs, including an evaluation of insurance carrier cybersecurity.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance
(\$ in Thousands)



HEAU: Health Education and Advocacy Unit in the Office of the Attorney General Consumer Protection Division
IT: information technology

Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

Source: Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2025 allowance increases by approximately \$7.4 million, or 17.7%, over the fiscal 2024 appropriation. Changes in IT and personnel costs make up more than 83% of this change. The largest increase (\$2.8 million) supports the Insurance Tracking System (ITS) major IT project, discussed in Key Observation 1. Personnel expenditures also increase significantly, mainly due to 15 new regular positions and a net increase in contractual positions.

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

How Much It Grows:	Special Fund	Federal Fund	Total
Fiscal 2023 Actual	\$36,550	\$36	\$36,585
Fiscal 2024 Working Appropriation	41,752	0	41,752
Fiscal 2025 Allowance	<u>49,133</u>	<u>0</u>	<u>49,133</u>
Fiscal 2024-2025 Amount Change	\$7,380	\$0	\$7,380
Fiscal 2024-2025 Percent Change	17.7%		17.7%

Where It Goes:	Change
Personnel Expenses	
Salaries and fringe benefits for 15 new regular positions.....	1,419
Salary increases and associated fringe benefits including fiscal 2024 COLA and increments.....	912
Workers' Compensation	-8
Turnover adjustments (increase from 6.13% to 7.32%)	-335
Other Changes	
Implementation of new Insurance Tracking System MITDP development plans	2,785
Contractual personnel, mainly due to a net increase of 8.6 FTE positions....	1,279
Consulting services in the Property and Casualty Program.....	250
Consulting to evaluate insurance carrier cyber security plans for compliance with insurance data security regulations.....	250
Migration of VoIP to a cloud based service	175
DoIT services allocation	172
Network adequacy consultant services in the Life and Health Unit.....	168
Office equipment and supplies in Management Information Services and the Consumer Education Advocacy Unit	149

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Where It Goes:	<u>Change</u>
Temporary staffing for intranet content management	92
Grant for the Health Education and Advocacy Unit under the Office of the Attorney General	60
Copier machines for the Actuary Unit, Management Information Services Unit, and the Compliance and Enforcement Unit.....	50
Association membership dues	45
Realigning expenditures for biannual software upgrades with fiscal 2023 actual spending	-300
Other expenses	218
Total	\$7,380

COLA: cost-of-living adjustment

DoIT: Department of Information Technology

FTE: full-time equivalent

MITDP: Major Information Technology Development Project

VoIP: Voice over Internet Protocol

Note: Numbers may not sum to total due to rounding. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Personnel Data

	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24-25</u> <u>Change</u>
Regular Positions	259.00	259.00	274.00	15.00
Contractual FTEs	22.85	22.10	30.70	8.60
Total Personnel	281.85	281.10	304.70	23.60

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	18.96	7.32%
Positions and Percentage Vacant as of 12/31/23	14.00	5.41%
Vacancies Below Turnover	4.96	

The fiscal 2025 allowance includes 15 new regular positions and a net increase of 8.6 full-time equivalent contractual positions. **Exhibit 3** shows the distribution of position changes across MIA units, with 5 new regular positions allocated to each of the Compliance and Enforcement, Life and Health, and Property and Casualty (P&C) units. This is the first increase in the number of MIA’s regular positions since fiscal 2019, when 2 new positions were added. New positions in fiscal 2025 are provided to manage the rising numbers of complaints and appeals, relieve staff with more expertise from time-consuming administrative tasks, meet new goals related to oversight of network adequacy and mental health parity, and introduce staff with more data analysis expertise to study big data and artificial intelligence driven predictive models now being used more frequently in the insurance market.

**Exhibit 3
New Regular and Contractual Position Change by Unit
Fiscal 2025**

<u>Unit</u>	<u>Regular Position Change</u>	<u>Budget Change</u>	<u>Contractual Position Net Change</u>	<u>Budget Change</u>
Executive Direction			1.1	\$134,229
Examination and Auditing			0.0	\$5,016
Life and Health	5.0	\$441,835	2.4	\$378,581
Rating Analyst	1.0	109,967		
Lead Analyst	1.0	103,012		
Junior Appeals and Grievance Investigator	1.0	69,956		
Consumer Complaint Investigator I	2.0	158,900		
Actuary Unit			0.0	\$30,929
Property and Casualty	5.0	\$448,026	2.0	\$103,023
Hearing Support Clerk	1.0	74,665		
Fully Accredited P&C Actuary	1.0	162,670		
Consumer Complaint Investigator I	2.0	159,254		
Office Clerk II	1.0	51,437		
Support Services			1.2	\$63,855
Management Information Services			-0.8	-\$55,591
Insurance Fraud Division			0.8	\$197,146
Consumer Education Advocacy Unit			6.3	\$478,275
Compliance and Enforcement	5.0	\$415,540	-4.3	-\$94,322
Senior Market Conduct Examiner	2.0	176,302		
Assistant Director	1.0	94,094		
Title Insurance Enforcement Investigator	2.0	145,144		
Total	15.0	\$1,305,401	8.6	\$1,241,141

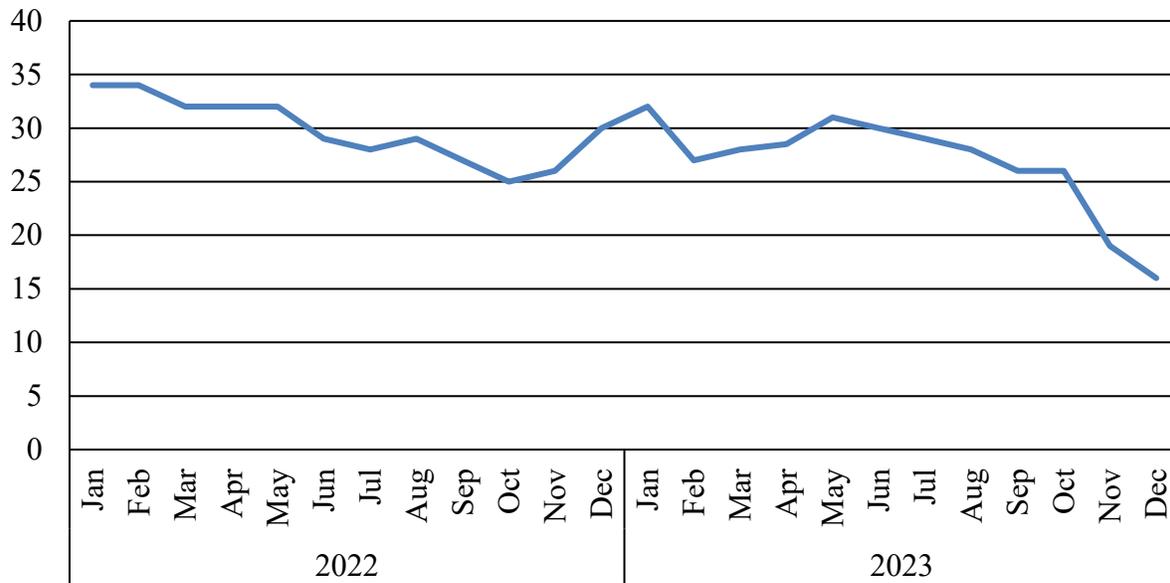
P&C: Property and Casualty

Note: Examination and Auditing and Actuary Units reflect contractual personnel change that nets to no change in positions but has a slight salary increase.

Source: Department of Budget and Management; Maryland Insurance Administration; Department of Legislative Services

MIA reported vacancy rates above 10% for all but one month in calendar 2022 and indicated that public-private salary differentials were a leading cause for these staffing shortages. To compete with the private market for job seekers with education or experience in the insurance industry, MIA made an effort to reclassify regular positions in order to increase salaries. **Exhibit 4** shows that total vacancies generally decreased over the course of calendar 2023. There were 16 vacancies as of December 1, 2023, a 50% decrease compared to January 2023.

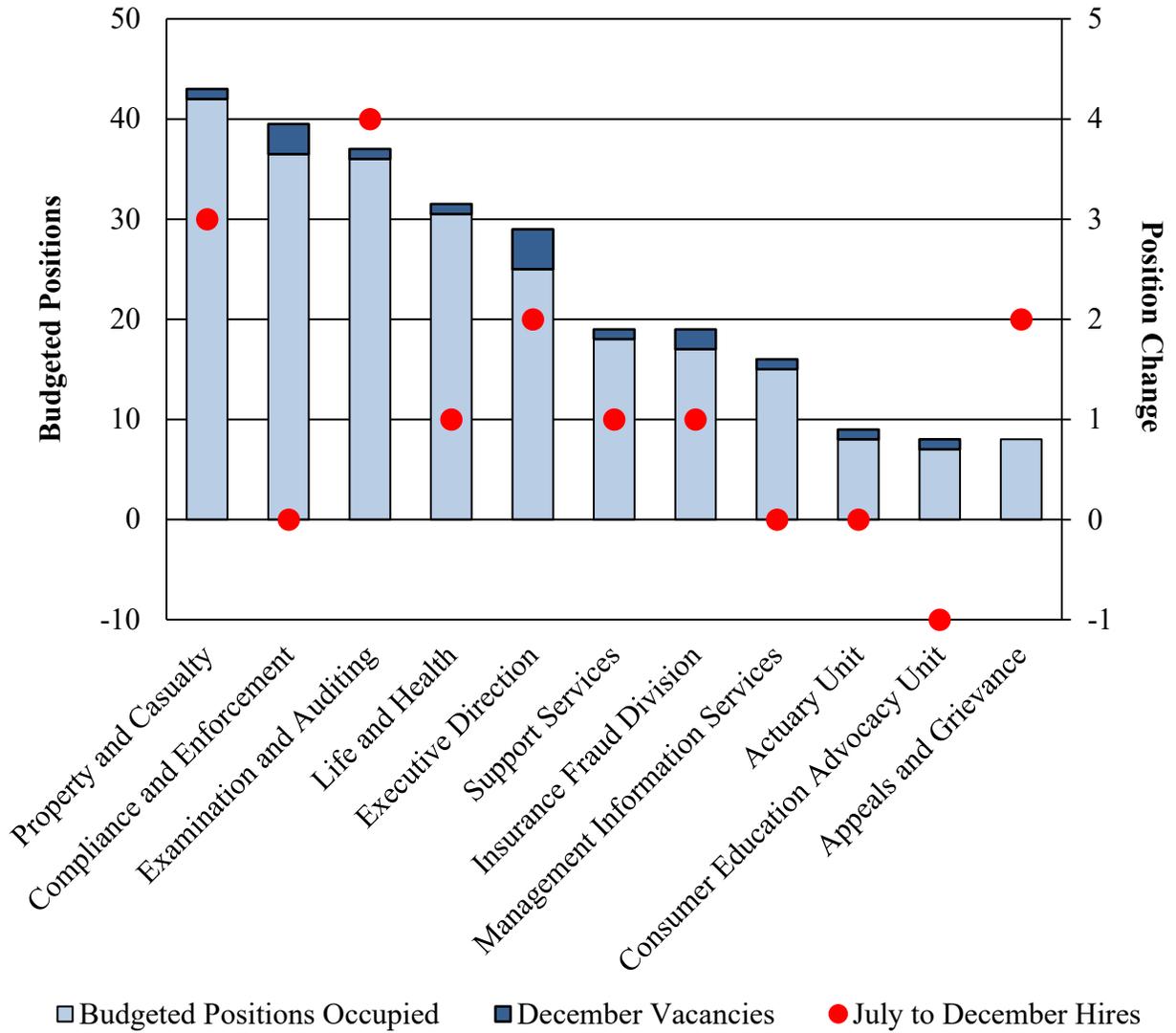
Exhibit 4
Total Vacancies Per Month
Calendar 2022-2023



Source: Department of Budget and Management

While total MIA vacancies decreased over calendar 2023, staffing levels and vacancies varied across MIA’s units. **Exhibit 5** shows filled and vacant positions per unit as of December 1, 2023, along with the net position change since July 2023. Units with the most improvement included Examination and Auditing and P&C, decreasing from 5 and 4 vacancies, respectively, to only 1 vacancy each in December 2023. The Executive Direction unit reported the highest number of vacancies, and while it showed improvement from 6 to 4 vacancies in the first half of fiscal 2024, its vacancy rate remained above 13% in December 2023. The average vacancy rate for the Executive Direction unit from July to December 2023 was 19%. **MIA should comment on the impacts of vacancies during calendar 2023, on recent efforts to improve hiring and retention, and on which strategies have been most effective in reducing agencywide vacancies.**

**Exhibit 5
December Vacancies and Fiscal 2024 Year-to-date Hiring by Unit
July to December 2023**



Note: Filled and vacant positions are shown as of December 1, 2023.

Source: Department of Budget and Management; Maryland Insurance Administration

Key Observations

1. Insurance Tracking System Major Information Technology Development Project

MIA identified the need to replace its current enterprise system and began planning for a new system in summer 2019. The current legacy system was custom built for the agency in the 1990s to manage company licensing, market conduct case tracking, and case tracking for hearings and orders. The legacy system limits efficiency and security in the following ways: company documents are received in paper form or email, and data is manually entered and updated by MIA personnel; licenses are printed and mailed; Excel spreadsheets are used to store all data associated with fraud cases; and there are functional challenges in database querying for market conduct exams, orders, and hearings. The new system is expected to increase efficiency in existing functions and introduce a case tracking system for MIA fraud investigations. It will include new features in document management, workflow, collaboration, data analysis, and data reporting. Additional information about this major IT project can be found in **Appendix 2**.

MIA has faced a number of project management challenges related to budgeting and procurement. On October 6, 2021, a contract was awarded to MERP Systems, Inc. and approved by the Board of Public Works (BPW). However, in March 2022, this vendor subsequently defaulted on the contract after rejecting the original cost estimate. Project development was then stalled until spring 2023 while MIA worked more closely with the Department of Information Technology (DoIT) to either secure a new vendor through the State’s One Stop contract or begin design services under the State’s Salesforce master contract (SMC) with approval through the Department of General Services (DGS).

The Office of State Procurement under DGS authorized the cost and scope of design services for MIA’s use of the SMC, and new design work for this project began in July 2023. A project blueprint was delivered to MIA and approved by the commissioner in September 2023. In mid-January 2024, MIA reported that it received a detailed Design and Requirements proposal and new cost quotes. However, MIA had not received a final design document at that time and expected the document to be submitted at the end of January 2024. MIA indicated that additional funding may be required to cover further project development costs in fiscal 2024.

Original ITS project cost estimates ranged between \$2 million and \$3 million for total project development and implementation. MIA subsequently received increasing and wide-ranging cost estimates during the initial procurement process. This uncertainty contributed significantly to delays leading up to and following the first vendor’s default at the start of calendar 2022. **Exhibit 6** reflects appropriated funds compared to actual spending in fiscal 2021 through 2023 and ongoing design and implementation costs estimated through fiscal 2026. The fiscal 2025 allowance includes \$4 million to fund continued implementation and project design work. Total project costs, including spending through the State’s SMC, are estimated at \$5.8 million, though more than that amount (\$7.5 million) is expected to be appropriated from fiscal 2021 to 2026 due to underspending prior to fiscal 2024.

Exhibit 6
Insurance Tracking System Project Budget and Planned Spending
Fiscal 2021-2026

	2021-2022	2023	2024	2025	2026
	<u>Actual</u>	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Projected</u>
Appropriated Funding	\$2,118,000	\$160,000	\$1,215,238	\$4,000,000	\$50,000
Spending					
Software Licenses	85,950				
DoIT Project Oversight		27,029			
SMC Design Work		394,152			
Estimated Spending			1,249,992	4,000,000	50,000

SMC: Salesforce Master Contract

DoIT: Department of Information Technology

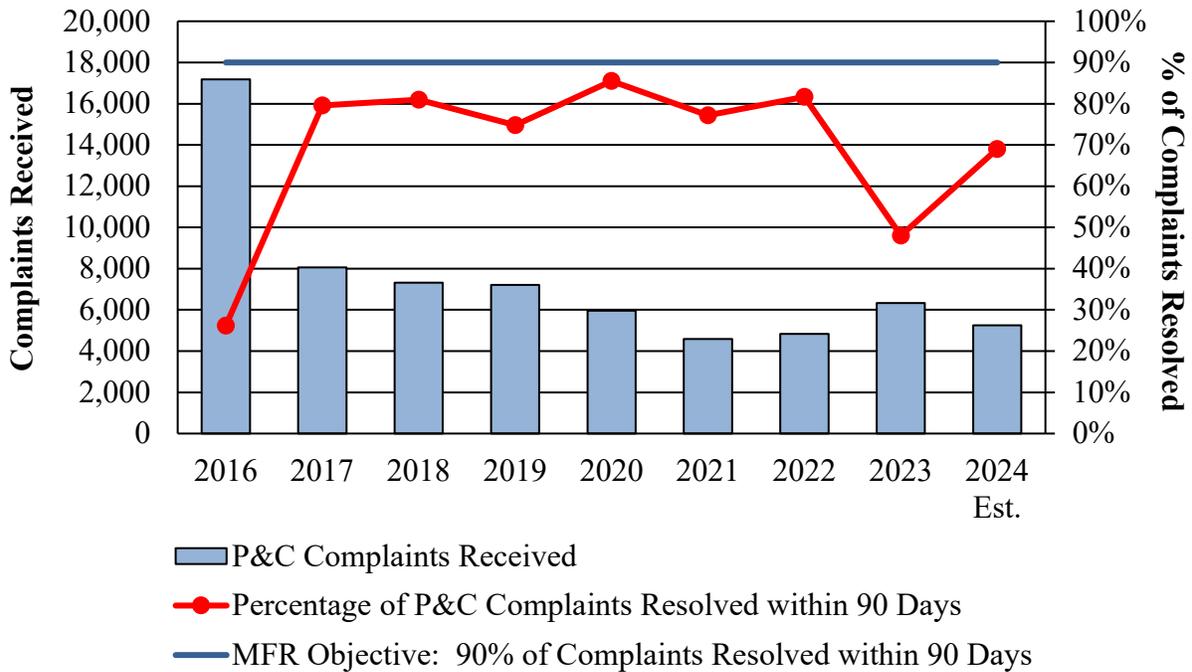
Source: Department of Budget and Management; Maryland Insurance Administration

MIA should provide a status update on project development and the estimated timeline for project completion. DLS recommends adopting committee narrative requesting two reports on ITS project development, including updates on estimated project costs, actual spending, and progress in completing project components.

2. Property and Casualty Complaints

MIA receives and processes complaints from consumers seeking review of insurance policies for compliance with State insurance laws. MIA’s objective is to resolve 90% of complaints within 90 days. **Exhibit 7** shows that from fiscal 2016 through fiscal 2023, MIA has not met this objective and is not expected to meet the objective in fiscal 2024. Following a sharp decline in complaints received from fiscal 2016 to 2017, the number of P&C complaints received gradually decreased from 8,059 in fiscal 2017 to 4,584 in fiscal 2021. Over this same period, the percentage of P&C complaints resolved within 90 days increased substantially from fiscal 2016 to 2017, then fluctuated between 74% to 86% until fiscal 2022. In fiscal 2023, the number of P&C complaints increased for the second consecutive year, from 4,835 in fiscal 2022 to 6,337. From fiscal 2022 to 2023, the percentage of P&C complaints resolved within 90 days fell to 48%. This drop in timely complaint processing reflects the first substantial decrease since fiscal 2016, though it does not reach the fiscal 2016 low of 26.2% for the period.

Exhibit 7
P&C Complaints Received and Percentage Resolved in 90 Days
Fiscal 2016-2024 Estimated



MFR: Managing for Results
P&C: Property & Casualty

Source: Department of Budget and Management; Maryland Insurance Administration

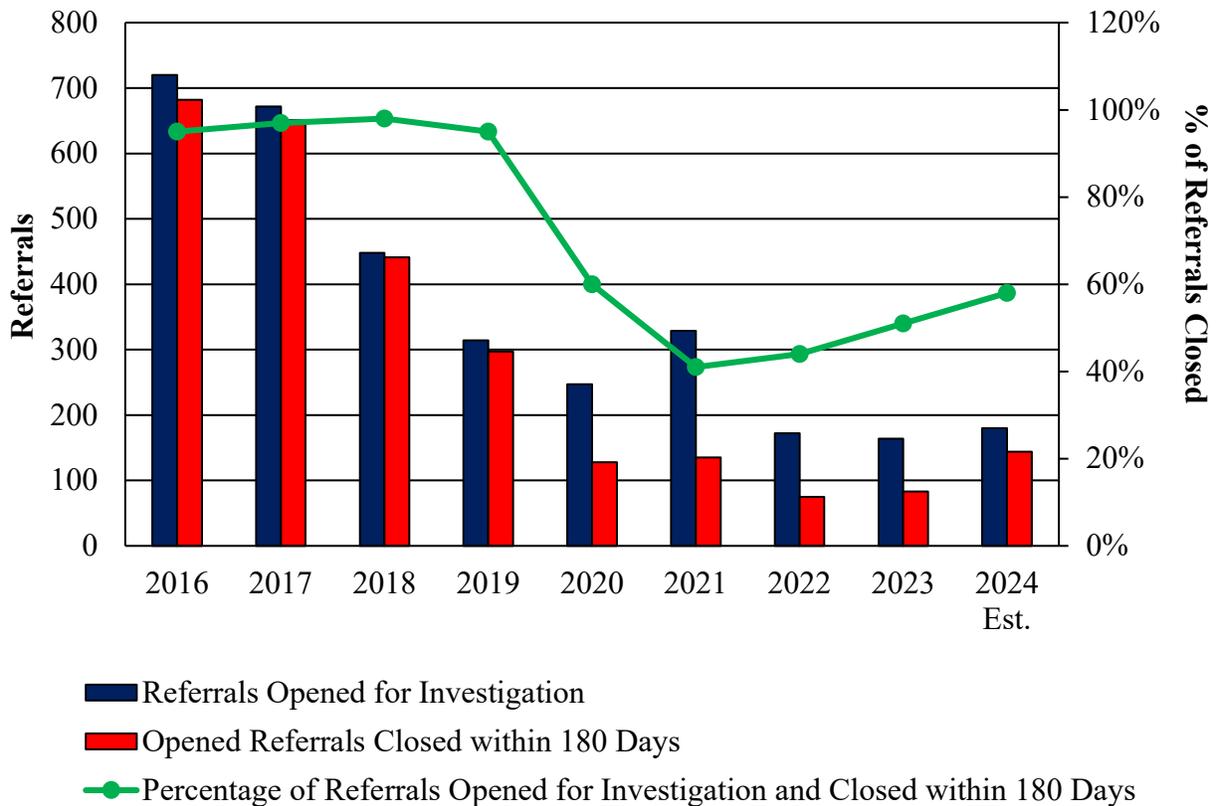
MIA should explain the fiscal 2022 to 2023 increase in the number of complaints received and the large decrease in the share of complaints with timely resolutions. MIA should also discuss efforts it is taking to improve the timeliness of complaint processing to reach the goal of 90% of complaints resolved within 90 days.

3. Fraud Division

The Insurance Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud.

Exhibit 8 shows the number of fraud cases opened, the number of cases closed within 180 days, and the percentage of cases referred for criminal prosecution. MIA previously indicated that the downward trend in percentage of referrals closed within 180 days from fiscal 2020 to 2021 was a result of ongoing impacts from the COVID-19 pandemic as well as two long-term criminal investigations impacting operations. MIA reported in fiscal 2022 that lower rates were likely to continue through the end of fiscal 2022. Since that projection, actual fiscal 2022 referrals opened and referrals closed within 180 days decreased further by 48% and 44%, to 172 and 75, respectively. There was little to no recovery in fiscal 2023 as the number of referrals decreased even further by 5%. In fiscal 2023, the number of referrals closed in 180 days increased by 11%. MIA projected in the fiscal 2025 Managing for Results submission that fiscal 2024 referrals opened and referrals closed within 180 days would increase by 10% and 73%, respectively, compared to fiscal 2023. Despite this anticipated increase, overall referral activity remains significantly below prepandemic levels.

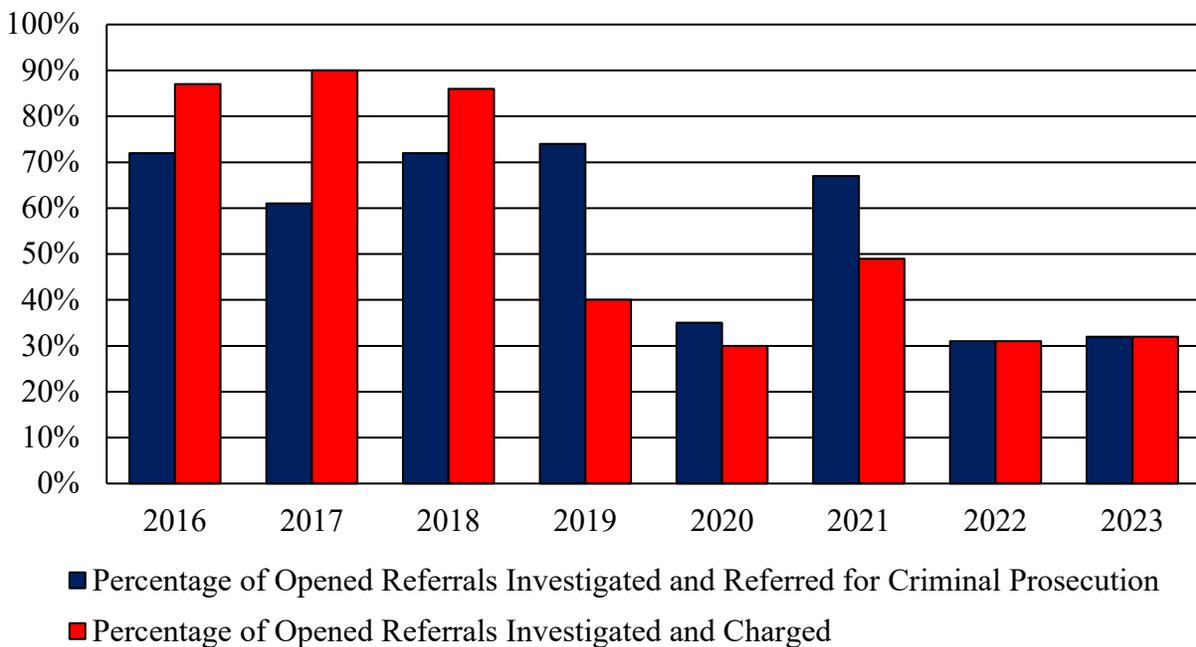
Exhibit 8
Fraud Cases Opened and Closed within 180 Days
 Fiscal 2016-2024 Estimated



Source: Department of Budget and Management; Maryland Insurance Administration

Not all referrals for investigation lead to referral for prosecution, and only a portion of prosecutions lead to charges. However, perhaps reflecting the recent decline in total volume of referrals for investigation, a downward trend appears in the percentage of investigated referrals referred for criminal prosecution and charges. **Exhibit 9** shows that actual fiscal 2022 and 2023 percentage of referrals investigated and referred for criminal prosecution as well as referrals investigated and charged are relatively close to those of fiscal 2020, remaining below prepandemic and fiscal 2021 levels.

Exhibit 9
Fraud Referral Cases Investigated, Referred for Prosecution, and Charged
Fiscal 2016-2023



Source: Department of Budget and Management; Maryland Insurance Administration

MIA should describe the referral process and provide reasons for the overall decline in volume of referrals, referrals closed within 180 days, and referrals for criminal prosecution and charging.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Insurance Tracking System (ITS) Project Status: After significant delays beginning in calendar 2020, active design and development of the ITS project has resumed. A project blueprint was delivered to the Maryland Insurance Administration (MIA) and approved by the Commissioner in September 2023. As of January 2024, MIA had received a detailed Design and Requirements proposal and new cost quotes. The fiscal 2025 allowance includes \$4 million for continued ITS project development. In order to continue monitoring this project and to be informed of any further delays or cost increases, the committees request that MIA submit initial and follow-up reports to update the committees, including:

- a summary of progress made on the project in the previous two quarters and projected tasks to be completed in the following two quarters, including a list of all identified project development benchmarks and target dates and actual completion dates for each major benchmark;
- actual project spending over the previous two quarters; and
- any updates to the estimated total project cost or anticipated project timeline.

Information Request	Author	Due Date
ITS Major Information	MIA	July 10, 2024
Technology Development		January 10, 2025
Project status		

Updates

- ***Repeat Audit Violation Involving the Health Care Regulatory Fund (HCRF):*** In the January 2023 *Statewide Review of Budget Closeout Transactions for Fiscal Year 2022*, the Office of Legislative Audits found that MIA had an unreported HCRF special fund deficit of \$836,956 due to the agency double counting \$1.2 million in revenues. Fiscal 2020 and 2021 closeout audit findings also noted HCRF deficits of \$1.4 million and \$1.0 million, respectively. As of the publication of the fiscal 2021 closeout audit, MIA had a plan in place to eliminate the deficit by fiscal 2025.

Appendix 1
2023 Joint Chairmen’s Report Responses from Agency

The 2023 *Joint Chairmen’s Report* (JCR) requested that MIA prepare two reports. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Maryland Automobile Insurance Fund (Maryland Auto) and the Private Insurance Market:*** The committees were interested in evaluating the Maryland Auto rating methodology as part of an effort to address the problem of declining surplus and requested that MIA submit a report evaluating this issue. The report was submitted on December 1, 2023, and provided an extensive review of Maryland Auto’s rate structure. Most notably, MIA advised in favor of rate increases in order to cover costs but advised against expanding the customer base while many existing customers already do not meet the criteria in statute to hold a Maryland Auto policy. MIA also advised further consideration of restructuring Maryland Auto as a private market residual mechanism like that of most other states.
- ***ITS Project History and Future Management Plans:*** The committees were interested in better understanding the agency’s efforts to prevent future ITS project delays and requested status updates on the major IT project, including its funding and expenditure history and plans for ongoing development. The report was submitted on July 31, 2023. Further discussion of the ITS project can be found in Key Observation 1 and Appendix 2 of this analysis.

Appendix 2
Insurance Tracking System
Major Information Technology Project
Maryland Insurance Administration

Additional discussion of this project can be found in Key Observation 1 of this analysis.

New/Ongoing: Ongoing								
Start Date: 5/1/2020					Est. Completion Date: Fiscal 2025			
Implementation Strategy: Agile								
(\$ in Millions)	Prior Year	2023	2024	2025	2026	2027	Remainder	Total
SF	\$2.118	\$0.160	\$1.215	\$4.000	\$0.050	\$0.000	\$0.000	\$7.543
Total	\$2.118	\$0.160	\$1.215	\$4.000	\$0.050	\$0.000	\$0.000	\$7.543

- Project Summary:** MIA has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s for the following business functions: company licensing; market conduct case tracking; and case tracking for hearings and orders. The new system will also include a case tracking capability for MIA fraud investigations. The new system will leverage the following modern technologies: document management; workflow; collaboration; data analysis; and data reporting.
- Need:** The current system is significantly paper- and Excel-based and increases the likelihood of error and employees’ time spent completing data analysis and communications.
- Observations and Milestones:** A contract was initially awarded to MERP Systems, Inc. and approved by BPW on October 6, 2021. The vendor defaulted in March 2022, stalling all progress on the project until MIA worked with DoIT and DGS to use the State’s SMC. Prior year funding of \$2.1 million reflects appropriations made for work that did not take place with the defaulted vendor. In fiscal 2024, funding was appropriated for use of the SMC, and design work has been underway.
- Changes:** As of January 2024, MIA reported that it received a detailed design and requirements report and new cost estimate for implementation. MIA indicated that more funding may be needed in fiscal 2024 than is currently appropriated to support an updated development plan. The fiscal 2025 allowance includes \$4 million for the project.

**Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	259.00	259.00	274.00	15.00	5.8%
02 Contractual	22.85	22.10	30.70	8.60	38.9%
Total Positions	281.85	281.10	304.70	23.60	8.4%
Objects					
01 Salaries and Wages	\$ 28,381,636	\$ 30,587,124	\$ 32,574,723	\$ 1,987,599	6.5%
02 Technical and Special Fees	2,466,898	1,107,045	2,386,295	1,279,250	115.6%
03 Communication	203,783	250,368	440,001	189,633	75.7%
04 Travel	183,072	382,578	440,846	58,268	15.2%
07 Motor Vehicles	180,840	258,327	199,222	-59,105	-22.9%
08 Contractual Services	2,196,786	5,641,638	9,306,372	3,664,734	65.0%
09 Supplies and Materials	208,089	270,602	334,698	64,096	23.7%
10 Equipment – Replacement	176,682	191,618	193,972	2,354	1.2%
11 Equipment – Additional	8,390	435,650	538,509	102,859	23.6%
12 Grants, Subsidies, and Contributions	650,323	590,714	650,323	59,609	10.1%
13 Fixed Charges	1,928,852	2,036,703	2,067,830	31,127	1.5%
Total Objects	\$ 36,585,351	\$ 41,752,367	\$ 49,132,791	\$ 7,380,424	17.7%
Funds					
03 Special Fund	\$ 36,549,785	\$ 41,752,367	\$ 49,132,791	\$ 7,380,424	17.7%
05 Federal Fund	35,566	0	0	0	0.0%
Total Funds	\$ 36,585,351	\$ 41,752,367	\$ 49,132,791	\$ 7,380,424	17.7%

Note: The fiscal 2024 appropriation does not include across-the-board reductions. The fiscal 2025 allowance does not include cost-of-living adjustments.