MARYLAND AUTOMOBILE INSURANCE FUND'S
2016 BUDGET RESPONSES

Requested Responses:

MAIF should comment on the impact of the move (to Baltimore City) on its operations.

The 2015 move from Annapolis to Baltimore was conceived by the prior Executive Director as a means to energize the company, achieve the flexibility that comes with being a renter as opposed to an owner, and harvest the unrealized appreciation in the owned Annapolis facility.

The first two goals have been realized. The move has undoubtedly had an impact upon corporate culture. Maryland Auto previously had 115,000 sq. ft. in a 1972 former shopping center. The move to Baltimore allowed Maryland Auto to consolidate into less than 60,000 sq. ft., providing a modern, well-lit, revitalized workspace for its employees. By becoming a tenant as opposed to a landlord, Maryland Auto saves significantly on security and maintenance personnel. While there were costs associated with the move, to the extent those costs include a substantial amount for furnishings, such costs would have ultimately been realized whether or not Maryland Auto relocated.

Efforts to sell or dispose of the Forest Drive facility remain incomplete however. Currently, the facility is in a "dark period" with a potential buyer completing a study relative to access to the site. Should this buyer ultimately decide to purchase the property, it will yield a significant increase in Maryland Auto's surplus. Pending that sale, however, the move has not realized its full potential.

Existing management is leveraging the move, however, in a positive fashion. Maryland Auto's new facility in Baltimore City not only serves better its client base, it also places Maryland Auto in an easily accessible location. Maryland Auto is taking advantage of this by creating a more flexible, part-time based work force to augment its core insurance professionals. Being located in a vibrant neighborhood has made it easier to recruit talent, and allowed Maryland Auto to participate in the City's Hire One Youth Program.

MAIF should comment on the status of the installment plan and whether it supports legislation to reduce the down payment requirement.

The utilization rate for the Maryland Auto Insurance Fund installment plan was the subject of a statutorily mandated report by the Maryland Insurance Administration. This report, based upon data received from Maryland Auto, demonstrated that the "take rate" of the installment plan is below 2%, and that for Maryland Auto producers who also own a premium finance company, the take rate is well below 1%. These numbers are simply unacceptable.

Maryland Auto supports three (3) solutions in this area. Specifically, installment take rates are impacted by 1) disclosure, 2) down payment amount, and 3) the number of monthly payments. A survey of Maryland Auto policyholders revealed that 70% of Maryland Auto insureds were unaware of the installment plan. If they are not being told of the plan by their producers, that is a violation of Maryland law, and grounds for an enforcement action by the Insurance Administration.

To the extent individuals are informed of the plan, it is challenging to make the required down payment of, in most cases, 25%. Maryland Auto would support legislation lowering the down payment. Further use could be accomplished also by increasing the maximum number of monthly payments that can be taken by Maryland Auto under the plan. In an economy where many Maryland Auto policyholders struggle week to week to pay their bills, an installment statute which prohibits monthly payments is a significant bar to its acceptance.

MAIF should comment on the health of the Insured Division and the likelihood of imposing an assessment in the future.

The health of the insured division of Maryland Auto, relative to its assessment trigger, remains strong. Even assuming no investment income in the estimated 2016 year-end results, the ending surplus will stand at over $55 million, compared to an assessment trigger of only $20 million. If the sale of the Forest Drive facility is included, surplus will also be strengthened.

Bolstering Maryland Auto's financial health remains a priority. To do that, Maryland Auto has increased its rates, and taken strong steps to lower its expense infrastructure. Maryland Auto has implemented aggressive cost cutting measures and lowered annual expenses $11.5 million since 2012 by having less personnel, eliminating redundant and unnecessary expenses, and carefully reviewing all existing expense vendors to determine if lower costs can be achieved.

As always, the possibility of future assessments depends to some degree upon the actions of the insurance industry. The industry's appetite for the number of policies in Maryland that it will write controls Maryland Auto's volume. If the industry were to suddenly alter its underwriting practices and either reject more Marylander's or dramatically accept more Marylander's, those actions will have a significant impact upon Maryland Auto. The key to avoiding an assessment, in short, remains what it has always been – a strong partnership between Maryland Auto, Maryland state government, and the insurance industry.