FY 2019 BUDGET TESTIMONY
MARYLAND AUTOMOBILE INSURANCE FUND
MARK D. McCURDY, EXECUTIVE DIRECTOR

Public Safety, Transportation and Environment, Subcommittee
Senator James E. DeGrange, Sr., Chair
March 1, 2018

Transportation and Environment, Subcommittee
Delegate Tawanna P. Gaines, Chair
Delegate Aruna Miller, Vice-Chair
March 5, 2018

We deeply appreciate the work of the analyst and the opportunity to provide information to the committee. While Maryland Auto does not receive state funds, we are proud of our relationship with the State and encouraged by the strong interest and transparent information exchange that this forum provides.

Maryland Auto is continuing its important financial improvements that started in the summer of 2015. At that time, the entity's combined ratio had risen to 135, and was projected to continue to climb. At the end of 2017, however, the combined ratio had been lowered to 125 (see chart 1). This represents an improvement of approximately $8 million. This is the best matrix for judging a financial turnaround, and I applaud the cost efficiencies that lead to these dramatic improvements.

Requested Responses:

MAIF should comment on the impact of the move to MAIF's new leased space in Baltimore City on its operating expenses and any net gain or loss incurred versus operating out of the Annapolis office.

As we noted in early 2016, the move from Annapolis to Baltimore was conceived by the prior Executive Director, undoubtedly to alter corporate culture, but without first selling the Forest Drive facility.

Current management sold that facility in the fall of 2016. The sale resulted in an $8.2 million gain. Portions of this gain were used to offset the cost of the move to Baltimore ($3.8 million) and to pay rent ($1.8 million /year).

As a tenant and not an owner, Maryland Auto realized some other savings further offsetting the rental cost. Specifically, Maryland Auto no longer employs a custodian or security staff. This results in annual savings (including salary and benefits) of $427,949. Moreover, our annual Baltimore City operational costs are approximately $550,000 lower than those associated with the Forest Drive facility.

MAIF should comment on whether it supports legislation to alter the down payment requirement as well as policyholder experience utilizing the MAIF installment plans.

The current installment plan is the result of legislation passed in 2013. As the analysis notes, the combination of a high down payment requirement and a limited number of installment options have restricted its use to 2% of Maryland Auto policyholders. We reiterate what we noted in 2016. Maryland Auto supports three (3) solutions in this area. Specifically, installment take rates would improve with 1) a signed disclosure requirement, 2) a lower down payment percentage, and 3) an increase in the allowable number of monthly payments.

There is pending legislation that alters the statutory requirements for a one-time incentive program. Any modification of the plan would require the approval of the Insurance Commissioner. Those provisions are in Senate Bill 856/House Bill 1161 and apply to a segment of individuals who qualify for a one-time incentive program to assist in satisfying prior uninsured motorist penalty fines. Maryland Auto is supporting this legislation.

Any decision to expand the current installment plan is beyond Maryland Auto's authority. Maryland Auto would, of course, support any installment plan that helps qualified individuals purchase and maintain an insurance policy provided it does not impact our financial solvency.

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

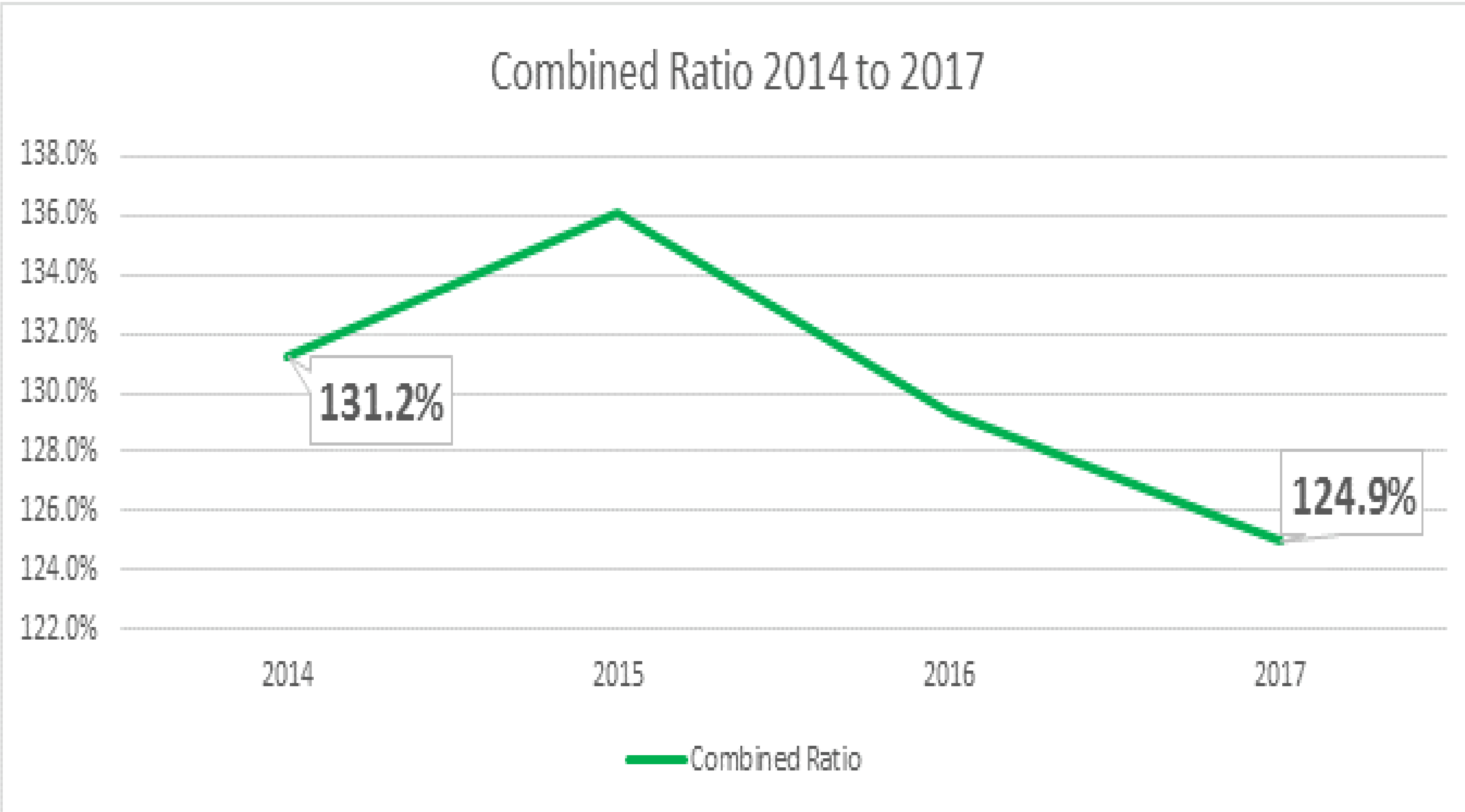
The work of the employees at Maryland Auto has dramatically slowed the rate of erosion of its surplus, which is a key to avoiding an assessment under Insurance Article 20-404.

Year-end surplus for 2017 was $57.4 million, which is $36.8 million above the assessment trigger. With continued active management, Maryland Auto hopes to avoid an assessment. External market factors can greatly impact Maryland Auto, making this a continuous challenge.

MAIF should comment on whether it would support legislation that creates a reporting requirement to the General Assembly in the event that Uninsured Division surplus funds reach a set threshold value.

Maryland Auto reports the financial results of the Uninsured Division to the Insurance Commissioner each year. As a result of budget actions since 1995, $41 million has been transferred from the Uninsured Division lowering its statutory surplus to below $1 million. While the low surplus figure is a concern, it should be noted that in 2012, as a result of state fund transfers, this surplus was actually negative $1 million.

Senate Bill 856 / House Bill 1161 is an attempt to address this funding issue. Funds generated from the one-time incentive program from unpaid uninsured motorist penalty fines will flow to the Uninsured Division. This may provide financial assistance until the funding formula can be adjusted.


Combined Ratio 2014 to 2017
138.0%
136.0%
134.0%
132.0%
130.0%
128.0%
126.0%
124.0%
122.0%
131.2%
124.9%
2014
2015
2016
2017
Combined Ratio