MARYLAND
AUTO INSURANCE

**Maryland Automobile Insurance Fund**
**Fiscal Year 2022 Operating Budget**
**Response to Department of Legislative Services Analysis**

Transportation and Environment, Subcommittee
Delegate Marc Korman, Chair
February 11, 2021

Public Safety, Transportation and Environment, Subcommittee
Senator Cory V. McCray, Chair
February 11, 2021

***Requested Response:***

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

Maryland Auto continues to improve financial results. In 2015, the entity's combined ratio was 135%. At the end of 2020, however, the combined ratio had been lowered to 102.9%. Similarly, the year-end surplus level turned from a yearly decline to an increase of $10.6 million in 2019 and an additional $7.6 million in 2020. These are the best matrixes for judging a financial turnaround.

As noted above, the combined ratio has improved from 135% to 102.9%, and accordingly the rate in the decline of surplus has slowed. Surplus is a key to avoiding an assessment under Insurance Article §20-404.

Year-end surplus for 2020 was $54 million, which is $34 million above the $20 million assessment trigger. Due to a decline in earned premium and increased claims costs we are projecting a 10.3 million loss with an ending surplus of 43.3 million in 2021. Maryland Auto is projecting a surplus above the trigger for calendar year 2021, 2022 and 2023. Projections are extremely difficult beyond year-end 2021. Our projections assume premiums, losses, expenses and net income remain constant beginning in 2022. Changes in operations, including rate and expense adjustments, resulting from future management action could dramatically alter projections. Changes in the insurance market and investment climate could impact surplus. As the insurer of last resort, Maryland Auto cannot fully control the expenses (e.g. commissions set by statue). As a result, for year-end 2022 and beyond, we consider projections to be largely speculative.

The 2% premium tax exemption granted to MAIF by the General Assembly in 2017 is achieving its legislative purpose by aiding surplus. SB 149/HB 457 makes the premium tax exemption permanent and will continue to aid MAIF in avoiding a statewide assessment on Maryland drivers.

***Recommendation Response:***

**The Department of Legislative Services (DLS) recommends that the General Assembly consider amending statute to lower the down payment on plans from 25% and 20%, respectively, to 12.5% and 10%, respectively. DLS believes that this change would increase utilization of the installment payment plans and would save Maryland drivers money.**

The current installment plan is the result of legislation passed in 2013. We believe the combination of a high down payment requirement and a limited number of installment options have resulted in it being used by only 2% of Maryland Auto policyholders.

Consumers are hard pressed to opt for the required 20-25% down payment required by the statute for a Maryland Auto installment plan when a 10%-12% option is available through premium financing. Unlike the premium finance industry however, Maryland Auto does not charge interest, an application fee, or an electronic payment fee in order to attract more consumers at a lower, overall cost of financing.

Maryland Auto supports three solutions in this area: 1) a signed disclosure requirement, 2) a lower down payment percentage, and 3) an increase in the allowable number of payments. Each of these steps should increase utilization and would benefit Maryland policyholders.

Maryland Auto would, support any installment plan legislation that helps qualified individuals purchase and maintain an insurance policy provided it does not impact our financial solvency.



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