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

House Appropriations Committee
Transportation and the Environment, Subcommittee
Delegate Marc Korman, Chair
February 10, 2022

Senate Budget and Taxation Committee
Public Safety, Transportation and Environment, Subcommittee
Senator Cory V. McCray, Chair
February 11, 2022

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 2021, the combined ratio had been lowered to 124%. Year-end surplus for 2021 was $49 million, which is $31 million above the $18 million assessment trigger. Due to a decline in earned premium and increased claims costs we are projecting a $14.3 million loss with an ending surplus of $34.9 million in 2021. Maryland Auto is projecting a surplus well above the trigger for calendar year 2022 and 2023.

Projections are extremely difficult beyond year-end 2023. Our projections assume premiums, losses, expenses and net income remain constant beginning in 2022. Based on the 2022 projections, Maryland Auto will continue to manage rates and expenses (Maryland Auto cannot fully control all expenses, e.g. commissions are set by statue) to achieve optimal performance but continued deterioration or unforeseen changes in the market or investment climate could dramatically alter those projections. As a result, for year-end 2023 and beyond, we consider projections to be largely speculative.

As noted above, surplus is a key to avoiding an assessment under Insurance Article §20-404.

The 2% permanent premium tax exemption granted to Maryland Auto by the General Assembly in 2021 is achieving its legislative purpose by aiding surplus and will continue to aid MAIF in avoiding a statewide assessment on Maryland drivers.

Requested Response:

Maryland Auto should comment on how the shrinking surplus will affect the Uninsured Division.

The major role of the Uninsured Division is to adjust and settle claims filed by qualified Maryland residents who have been injured by an uninsured or unidentifiable motorist or hit and run incidents. Once the claim has been settled, the Uninsured Division actively pursues collection for the settlement from the at fault party. The principal source of Uninsured Division funding is a statutory portion of the State's uninsured motorist penalties, collections, and investment income. If the State's contribution is reduced it would jeopardize our ability to pay claims as required by statute.

On October 1, 2020, the Uninsured Division lost its ability to suspended driver's license for defaulted judgments due to enactment of Senate Bill 234/Ch. 150. The inability to suspended driver's license has significantly impacted the Uninsured Division collection efforts. As you might expect, individuals who are driving without insurance do not often voluntarily reimburse Maryland Auto for the damages they've caused. Prior to 2020, on the typical case our collection efforts were ignored until the judgment debtor was advised that they would be subject to a license suspension unless the judgment is paid or they entered into a payment plan. Since, 2020 Uninsured Division collections have decreased by approximately $200,000 annually.

In 2022, the Uninsured Division will be performing an amnesty program to allow debtors to pay off their judgments in full without the interest. This usually increases collections by $200,000 -$400,000.

Continued increase in claims payments and expenses with a decrease in collections may require a statutory change to the Uninsured Division funding formula.

Requested Response:

Maryland Auto should comment on the impact that the proposed legislation will have on uninsured drivers as well as the financial position of the Uninsured Division.

Senate Bill 278 and House Bill 377 remove the statutory restriction of 25% down and six installments (annual premium less than $3,000) and 20% down and eight installments on annual premiums of $3,000 or more and allows Maryland Auto to develop a reasonable installment plan for our policyholders. Maryland Auto supported Senate Bill 278 at the February 2nd hearing and House Bill 377 at the February 3rd hearing.

If passed, Senate Bill 278 and House Bill 377 will allow Maryland Auto, with the approval of the Insurance Commissioner, to offer a lower cost installment option for our policyholders to pay for their premiums. The lower cost payment option may encourage an uninsured motorist to purchase a Maryland Auto policy and help our policyholders maintain insurance thus decreasing the number of uninsured motorists in Maryland. Less uninsured motorists may reduce the number of Uninsured Division claims and payments improving financial results. While we believe this legislation is a very positive development, we have no way to predict the number of our policyholders that may select an improved installment payment plan option.