



**MARYLAND**  
AUTO INSURANCE

**Maryland Automobile Insurance Fund  
Fiscal Year 2023 Operating Budget  
Response to Department of Legislative Services Analysis**

House Appropriations Committee  
Transportation and the Environment, Subcommittee  
Delegate Marc Korman, Chair  
February 2, 2023

Senate Budget and Taxation Committee  
Public Safety, Transportation and Environment, Subcommittee  
Senator Sarah K. Elfreth, Chair  
February 3, 2023

***Requested Response:***

**Maryland Auto should comment on the reasons for the decline in regular positions and how the decline has impacted agency operations.**

The decline in regular positions is mainly due to attrition and were almost entirely voluntary separations. These vacancies have not been filled due to declining policy count and greater productivity of the remaining work force.

There has been a significant reduction in policies in force since 2020, continuing a two-decade trend (122,118 policies in 2004). These reductions resulted from the private insurance carriers writing an increased portion of the Maryland auto insurance market. The recent reductions in policyholders requires fewer employees to underwrite policies, adjust claims, and engage in the other insurance related activities. Overall there has been an improvement in productivity throughout Maryland Auto. As policies have declined, Maryland Auto has gradually reduced its work force and the ratio of employees to the number of policies has improved substantially. Within Maryland Auto, the Claims Department represents the majority of the staff (51%) and the majority of the staff reduction (80%) over the past three years. Claims is also the most influenced by a change in policy count.

Overall the number of total claims has dropped 26% since 2020 and in keeping with that reduction, the Claims Department has been judicious in replacing employees who have left or retired over the past three years. Since 2020, the Claims Department has reduced staff through attrition from 112 to 82 (27% reduction).

Claims personnel used the down turn in claim activity to refocus on settling older claims, streamlining processes, and enhancing staff training. Since 2020, the Claims Department has increased overall productivity by 17% (policies serviced per employee).

***Requested***

***Response:***

**Maryland Auto should comment on how much this cancellation profile changes from year to year and to what extent uncertainty related to policy cancellations influences income and expenditure projections.**

Maryland Auto policyholders have three options to pay for their premiums: pay in full, pay by installment under Maryland Auto's new installment payment plan, or finance the premium with a Premium Finance Company (PFC), with associated interest and fees. The cancellation rate varies, depending on which option the consumer chooses.

**Payment in Full.** Only 2% of Maryland Auto customers pay the annual premium in full. These policies may cancel for various reasons. In that case, the policyholder is refunded the unearned premium.

**Installment Payment Plan.** Maryland Auto's private installment payment plan was very restrictive and utilized by only 2% of the policyholders. A new statute (Ch. 453) took effect and a new installment payment plan of a 18% down-payment and 9 installments was offered beginning October 17, 2022.

**Premium Financed Policies.** Traditionally and currently, the substantial majority, (over 90%) of Maryland Auto policies are financed by PFC's and account for the majority of the cancellations. The vast majority of these are cancelled for failure to pay.

Since October 17, 2022, the utilization rate for the Maryland Auto installment plan has increased from 2% to 6%, premium financing declined from 96% to 92%, and paid in full remains at 2%.

Approximately 14% of paid in full policies cancel Maryland Auto installment payment plans have a cancellation rate of 37% and PFC policies have the highest rate of cancellation rate at 54%. When any paid in full policy cancels, any unearned premium is returned to the policyholder or PFC. These returned premiums are not considered income to Maryland Auto.

The installment payment plan is too new to make definitive predictions but is expected to increase in the coming years. It is assumed that with the continued growth of the installment billing plan, a slight reduction in the overall cancellation rate may occur. As the program grows, the program will become more diverse. It is hard to predict how installment billing will alter the cancellation rate but at this time, PFC's still control the majority of the payments made. Until there is a significant change in the mix between PFC's and the installment payment plans, the cancellation profile will not alter how we project our income and expenditures.