MARYLAND
AUTO INSURANCE

Maryland Automobile Insurance Fund
Fiscal Year 2025 Operating Budget
Response to Department of Legislative Services Analysis

House Appropriations Committee
Transportation and the Environment, Subcommittee
Delegate Courtney Watson, Chair
Delegate Mark Edelson, Vice Chair
January 25, 2024

Senate Budget and Taxation Committee
Public Safety, Transportation and Environment, Subcommittee
Senator Sarah K. Elfreth, Chair
January 26, 2024

Requested Response:

Maryland Auto should comment on the extent to which uncertainty related to policy cancellations influences income and expenditure projections. Maryland Auto should also comment on the relationship between claim risk and policy cancellation demographics, indicating whether higher risk, higher premium policies are the most frequently canceled.

As the residual insurer, Maryland Auto's income, expenditures and other financial metrics are largely dependent on the actions of the private insurance market. As the market hardens or softens, Maryland Auto's book of business can significantly fluctuate. As noted in the DLS analysis, Maryland Auto's Policy count was reduced by 50% from 2018 to 2021 (40,000 policies in force to 20,000) and then increased 100% to 40,000 policies in force by 2023. This was not the result of action by Maryland but resulted from conditions in the insurance market. These factors make projections very difficult. Nonetheless, we use policies in force and the rate to make financial projections by taking into account historical data, current trends, and expected insurance market conditions in the near-term. Premium revenue and claims-related expenses in the projections reflect a certain policy volume and cancellation rate. If actual policy volumes or the cancellation rate significantly deviate from projections, both premium and claims-related expenses will be impacted. More policies would generate more revenue and more claims expenses and vice versa. General and administrative costs are comprised of fixed and variable costs. There is a relationship between variable General and Administrative costs and policy counts such that variables costs move in the same direction as policy counts, but it is not a 1:1 relationship.

Premium rate increases alter consumer behavior, making their impact challenging to predict. Generally, rate increases would be expected to push a portion of policyholders out of the market and lead to fewer policies in force and/or an increase to the cancellation rate due to nonpayment, leading to a rise in uninsured drivers.

Generally, in the auto insurance industry there is no relationship between claim risk and policy cancellations, and we have no data that points to higher premiums policies canceling more frequently. The potential of a claim is more directly related to the quality of the driver (experience, aggressiveness, focus) being insured, and the location in which the insured generally travels, rural versus urban or city. Frequency of cancellation is driven by the consumer's financial condition, rather than the premium level.

Of note, Maryland Auto has seen a slight deterioration of the cancellation rate of policies who have elected the Maryland Auto installment billing plan option. The cancellation rate was 38.5% as of December 31, 2023, vs. 37.1% as of December 31, 2022. This is a program inception to date figure going back to 2013. For all policies, the proportion of policies cancelled due to non-payment has increased from November 2022 to November 2023. The cancellation rate for premium financed policies has been historically 40%.

Requested Response:

Maryland Auto should comment on how the number of policies in force contributes to rate adequacy and the leading factors contributing to an improvement in rate adequacy in calendar 2023.

Policies in force do not contribute to rate adequacy. Rate adequacy is based on the rate we can charge for the exposure being insured and it does not matter if there is one or one million polices. To improve the adequacy of the entire book of business, the proportion of insureds in territories with the affordability index would need to be significantly reduced. This would enable the adequate rates in the other territories to offset the reduced deficiencies created by the affordability index.

The improvement toward more adequate rates in 2023 has been the result of rate increase taken in both personal auto and commercial in August and October, respectfully.