MARYLAND
AUTO INSURANCE

Maryland Automobile Insurance Fund
Fiscal Year 2026 Operating Budget
Response to Department of Legislative Services Analysis

Senate Budget and Taxation Committee
Public Safety, Transportation and Environment, Subcommittee
Senator Michael Jackson, Chair
January 24, 2025

House Appropriations Committee
Transportation and the Environment, Subcommittee
Delegate Courtney Watson, Chair
January 27, 2025

Requested Response:

The Department of Legislative Services (DLS) recommends adopting committee narrative requesting that updated financial statements continue to be submitted quarterly to allow for additional monitoring of conditions.

We agree. We have filed these reports over the past year, and this has created no issues for Maryland Auto. While we agree, Maryland Auto respectfully requests that the submission due dates match those included in the 2024 JCR. The amended financial statement due dates would be July 31, 2025, October 31, 2025, March 15, 2026, and May 15, 2026. The first report will cover data for the first two quarters of calendar 2025, and each subsequent report will cover the prior quarter.

Requested Response:

Maryland Auto should comment on the impact of expected market conditions on policies in calendar 2025 and on and whether the current strategy to address the diminishing surplus, including plans to impose assessments, will be successful in increasing the surplus back to the calendar 2023 actual level.

Policies. Based on market conditions, we expect our policy count to slightly decline in 2025. This will occur principally from the actions of private insurers increasing their writing. In addition, we anticipate additional declines following required premium rates increases. We filed a 13.8% increase effective in January 2025, and under the Commissioner's Order, we are required to file further, more significant, increases in May 2025. It is difficult to predict the impact of these increases, since it will depend on the extent to which Maryland Auto policyholders will become uninsured, not being able to pay the unaffordable rates. As a result, our policy count could drop significantly. We will closely monitor the effect of these rate increases over the next 18 months.

Surplus. The ending surplus for CY 2023 was $19,772,764. During CY 2024, this surplus is projected to be depleted by an operating loss of $20,951,847 and this will result in an assessment in 2025. This assessment will be in the neighborhood of $21 million and will offset expected net operating losses of $13,694,166 in CY 2025. At year- end 2025, the surplus is projected to be $9,047,091, $10 million less than the year-end 2023 surplus.

Current law, Insurance Article §20-404, provides that the amount of the assessment is the smaller of the net operating loss and the assessment surplus deficit. So, although the surplus calculation would result in an assessment of $17 million for year-end 2025, the actual assessment will be $14,375,226, the projected PPA net operating loss. Because the assessment would not fully restore the surplus, it would not offset losses for the current year, making repeated assessments necessary for the foreseeable future.

As our recent and projected rate increases become more adequate, the size of the assessment will be reduced and possibly eliminated in the coming years.

Requested Response:

Maryland Auto should provide further information on the factors explaining the anticipated decrease in the inadequacy rate in calendar 2024

From 2011 to 2022 MAIF took very small rate increases compared to the indicated rate. This was exacerbated by the drastic changes in the auto insurance market during the pandemic years 2020 to 2022. It is important to consider the full picture of the Maryland auto insurance market during the pandemic years to understand the decisions that MAIF management made. On March 23, 2020, the MIA issued bulletin 20-12 encouraging all P&C carriers, including MAIF, to "consider making rate filings that provide temporary relief to insureds during this emergency." Bulletin 20-12 was followed by several other bulletins encouraging carriers to make certain financial accommodations, or premium rate reductions, due to the impact of the COVID-19 pandemic in Maryland. *See Bulletin 20-28 encouraging reasonable accommodations in policy payment terms; see also Bulletin 20-38 encouraging additional immediate premium relief to Maryland policyholders considering reduced loss costs.*

Many, if not all, carriers in the standard market experienced increased profitability and were able to reduce rates or issue dividend (profit sharing) payments to their policyholders. MAIF policyholders were in great need of rate relief. But given its book of business and financial results, MAIF was not in the same position. In response to the MIA's request for temporary premium relief and after careful consideration of the financial implications MAIF management filed for rates that roughly maintained the status quo. MAIF management considered this to be the best and most financially responsible approach it could take to comply with the MIA's request and to provide some level of much-needed support to its policyholders during a time of significant economic uncertainty.

Following the global pandemic there was an increase in auto-related costs due to supply chain constraints and inflation. This led to a much higher rate of MAIF policies carrying physical damage coverage, collision and comprehensive coverage for the insured vehicle. Since auto insurance premiums are based on historical data the rates charged for this coverage proved to be insufficient, which contributed to higher rates of inadequacy in the Maryland Auto book in calendar 2022.

In response to these changing market conditions, beginning in 2023, Maryland Auto management undertook a series of specific rate filings to address inadequacy while at the same time balancing the mandate of affordability.

In November 2023, Maryland Auto filed a PPA rate increase for an overall projected increase of 6.3%. This filing was directed towards addressing inadequacy in physical damage coverages, which was projected to increase an overall +21.4%, including +25.1% Collision and +11.2% Comprehensive.

Additionally, during calendar 2024 Maryland Auto has remained focused on its mission of affordability while also trying to decrease inadequacy by making strategic adjustments to the affordability index now in place. MAIF maintained the affordability index but tightened the threshold by increasing the cap on liability base rates from 2.9% to 3.3%. Under this same filing, a 13.8% rate increase will go into effect this month and under the Commissioners Order further increases will be filed in May 2025. These increases will continue to improve adequacy. Maryland Auto anticipates working with the Maryland Insurance Administration and the General Assembly over the next two years towards developing a solution acceptable to all stakeholders.