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Maryland Insurance Administration (D80Z01)
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 A. Jackson, Chair
January 30, 2025

House Appropriations Committee
Transportation and the Environment Subcommittee
Delegate Courtney Watson, Chair
February 3, 2025

The Maryland Insurance Administration (MIA) appreciates the opportunity to provide written testimony regarding its proposed budget for Fiscal Year 2026.

First, the MIA thanks the Department of Legislative Services (DLS) for its thoughtful analysis of the MIA's FY26 proposed budget. The MIA agrees with the recommendations included in the DLS analysis, although it has provided a handful of minor factual corrections. The MIA has also provided DLS with additional context related to the Agency's personnel, the ITS project, and metrics used by our Fraud and Enforcement unit.

Insurance Tracking System Major Information Technology Development Project

As the DLS Analysis notes, the MIA is continuing its work on improving and enhancing the Agency's cybersecurity and technology infrastructure. As was the case in FY25, a core element of those enhancements remains the implementation of the MIA's Insurance Tracking System (ITS) project, which suffered a setback during FY22 and FY23 because of a non-performing vendor. The project began implementation in FY24, and implementation has advanced in earnest to date in FY 25.

The ITS project is intended to replace MIA's legacy Enterprise System, which was custom-built for MIA in the 1990s to track and provide case management support to specific divisions within MIA. The ITS project will enable MIA to move away from multiple, custom-built platforms that do not integrate, to a single platform that would support all required functions. This system will bring automation to MIA processes, enhance the security of our data, and streamline workflow to complete daily tasks more efficiently.

The progression of the project over the past year is detailed in the two update reports submitted by the MIA in response to the Joint Chairmen's Report for the 2024 Legislative Session.

As noted in the second of those update reports, submitted on January 10, 2025, the MIA has made changes to the project's schedule due to needed integration with the National Association of Insurance Commissioners' Complaint Database System (CDS), which was not part of the original scope of work. The mitigation plan to add the CDS integration into the project with the least disruption and cost was to switch positions between two units - move up Life and Health (L&H) Complaints to Release 4 and move back Market Conduct to Phase 2. This switch helps to optimize and maximize Salesforce work by aligning the two units (Property and Casualty (P&C) Complaints and L&H Complaints) that use CDS by developing the integration once instead of twice, decreasing the amount of rework that is needed, and developing the systems in a layered approach.

Additionally, with the arrival of Acting Commissioner Grant in October, project governance has also changed to ensure visibility and buy-in of this important work across MIA. A steering committee has been formed to make key decisions as they arise, which will meet at least monthly during calendar year 2025. MIA has also recently hired a Chief Information Officer (CIO), who will be closely involved in the project and project management going forward.

The MIA does note discrepancies in the figures in Exhibit 6 and Appendix 2 of DLS's Analysis regarding the ITS project (on page 6 and 15 respectively). Specifically, the MIA notes the use of the budgeted figure instead of actual for FY 2024 spending, and the exclusion of the approved budget adjustment 005-25 ($5.181 million) for FY 2025. There is also a calculation error in the FY 2026 total of the DLS Appendix 2. Details on the MIA's corrections to these figures can be found in the fiscal exhibits attached with this testimony.

In its analysis, DLS recommends that the MIA comment on the total Insurance Tracking System development expenses in fiscal year 2026 that will be paid for with special funds from the MIA budget and if the total funds for fiscal 2026 are enough to complete the project or if additional funds will be required in fiscal 2027 and beyond.

The MIA confirms that the total ITS development expenses in fiscal year 2026 will be paid for with special funds from the MIA budget. The current estimated cost of the project for FY 2026 is approximately $7.67 million, which includes services (labor), licenses, and contingency funds. This is contingent upon the contractor's initial analysis of the level of complexity required for the portion of the project to be completed in FY 2026. However, this remains an estimate until the units scheduled for FY 2026 have gone through a full discovery session with the vendor, and precise design, development, and implementation needs are determined.

The MIA is presently assessing the budgetary requirements for fiscal year 2027, including the necessary ongoing maintenance and support for the system—whether it can be managed internally or if external assistance is required—as well as the exact number of licenses needed. In accordance with the DLS recommendation for two supplementary reports on the ITS project status in the forthcoming year (noted below), the MIA will provide updates to the budget committees regarding the associated fiscal projections for both FY 2026 and FY 2027.

Further, DLS recommends adopting a committee narrative requesting two reports on ITS project development, including updates on estimated project costs, actual spending, and progress in completing project components.

The MIA has been and continues to meet with the DoIT Enterprise Program Management Office on this Major IT Development Project (MITDP), providing monthly updates on technical progress and project spending to our Oversight Project Manager via the Monthly Assessment Reports that DoIT prescribes. The MIA agrees with the DLS recommendation, and will provide reports on the progress of the project, including spending, as adopted by the Committee.

<u>MIA Property and Casualty Complaints</u>

As DLS references in its analysis, the MIA's P&C Consumer Complaints Unit (PCCCU) investigates administrative complaints submitted by policyholders and claimants to determine whether the concerns raised in the administrative complaint violate the insurance regulatory laws. The MIA refers to these as "consumer complaints." Starting with its fiscal year 2026 Managing for Results (MFR) submission, the MIA has updated its objective to resolve 80% of consumer complaints received by PCCCU within a 90-day period, thereby underscoring its commitment to the unit's operational capabilities in light of the increased caseload, discussed further below.

In its analysis, DLS recommends that the MIA discuss the reasons for the fiscal 2023 to 2024 decrease in the share of complaints with timely resolutions. MIA should also discuss efforts it has taken to improve the timeliness of complaint processing to reach the objective.

Decrease in Timely Resolutions

The volume and complexity of consumer complaints filed with PCCCU has significantly increased over the last three years. The primary reason for the overall rise in complaints is the significant rate increases for both automobile and homeowners insurance policies. Maryland is a "file and use" state with regard to property and casualty insurance, and can analyze rate increases in these lines of business only for being inadequate, excessive, or unfairly discriminatory.

Under Maryland law, consumers who file complaints are entitled to have those rate increases investigated for compliance with Maryland's laws and regulations. The insurance carriers' rate and rule filings are frequently very complex and require close analysis by complaint investigators, analysts, and often actuarial staff.

Coupled with the increased volume and complexity is the MIA's staffing shortage, which has directly contributed to the delay in resolution of complaints. The Agency is working diligently to both hire additional staff in this unit and to obtain assistance from outside consultants, which will improve the ability to handle the volume of complaints being received. The Agency is also seeking outside consultant assistance to assist in the Agency's ability to better understand what is driving these rate changes, which in turn will allow for more accurate analysis and review of the rate filings that are driving the increase in complaints.

Efforts to Improve Timeliness of Complaint Processing

The MIA has implemented a number of measures aimed at enhancing the efficiency of complaint processing within PCCCU:

- A staffperson from a different unit is currently managing all Public Information Act (PIA) requests, thereby allowing investigators to dedicate more time to their casework.
- The majority of consumer inquiries are being managed by Consumer Education and Advocacy Unit (CEAU) personnel, thereby allowing PCCCU investigators to allocate increased time to their case files.
- CEAU staff are now proofreading the hearing write-ups drafted by investigators in the General subgroup of PCCCU, encompassing exhibits and a concise factual outline, while also redacting necessary documents. This enables investigators to concentrate entirely on file closures.
- The private passenger auto subgroup (PPA) of PCCCU has incorporated additional personnel: one to oversee process management and assist with file reviews and closings, two part-time retired employees to handle file work, and one dedicated to file review and approval.
- Additional administrative personnel have been added to support various functions, consisting of one full-time contractual position and one part-time contractual position.

- PCCCU is in the process of expanding its investigative team, having already hired one investigator for PPA and another for General. Two additional General investigators have recently accepted employment offers and will begin work in February.
- A Chief P&C Actuary has been hired.
- A Rates & Forms Analyst has been hired.
- PCCCU is currently engaged in the recruitment of a full-time Actuary and a contractual Actuarial Analyst.
- PCCCU is currently in the beginning stages of the procurement process for contracting with an outside actuarial firm.

MIA Insurance Fraud Investigations

As noted by DLS in its analysis, the MIA's Fraud Division is responsible for investigating complaints relating to alleged insurance fraud committed by insurance companies, insurance producers, or consumers. The division also operates a toll-free insurance hotline and, in cooperation with the Office of the Attorney General and the Department of State Police, conducts public outreach and awareness programs on the cost of insurance fraud to Marylanders.

In its analysis, DLS recommends that the MIA clarify why updated data for referrals opened for investigation and closed within 180 days were not reported in the fiscal 2026 MFR submission. DLS also recommends that the MIA explain the new metrics that will be submitted in the fiscal 2027 MFR submission as well as which current metrics will be updated.

Fiscal Year 2026 MFR Submission
In 2024, the MIA's Fraud and Enforcement unit requested to update their MFR metrics to better track varying levels of the complexity of insurance fraud cases and to provide more accurate information. For FY 26, the MIA proposed a three tiered system of classifying criminal cases. This will allow the Fraud Division to more accurately classify and track cases and the time they take to complete in relation to their complexity. The overall goal of the switch was to have a better understanding of how to assign cases (varying level of complexity) and the number of cases to a specific investigator. All cases are unique, therefore the MIA is trying to ascertain what is an acceptable or manageable caseload based on the particulars of each individual case.

Concurrent to this time period and leading up to it, the MIA continued to receive more complex cases involving attorneys, organized schemes to defraud, multiple companies/LLCs, numerous bank accounts, and interstate or transnational activities. The more complex the case, the longer it takes to investigate, charge, prosecute, and close. Because insurance fraud cases can vary greatly in both the type of fraud and their scope of complexity, simply measuring effectiveness from the time a case is opened/charged until it is closed does not necessarily measure the total efforts of the MIA. The retired metrics for FY 25 do not appropriately capture the work hours involved or the complexity of the investigations, which is one of the contributing factors, along with the reduced workforce, as to why the number of referrals opened, investigated, and charged have decreased.

For the new FY 27 metrics, some of the factors included in assigning a tier level to a case include: the number of victims, the number of suspects, the amount of loss, the involvement or non-involvement of organized/ring activity, and other factors affecting the anticipated level of complexity of a case. Please see table below with information on the previously-used performance metrics of the Fraud and Enforcement unit, with information about their year of retirement.

Performance Measure	**2024 Act**	**2025 Est**	**2026 Est**	**Comments**
Referrals Opened for Investigation	148	180	N/A	Retired FY 26
Opened Referrals Closed within 180 days	32	90	N/A	Retired FY 26
Percentage of Referrals Opened for Investigation and Closed within 180 days	22%	50%	N/A	Retired FY 26
Percentage of Opened Referrals Investigated and Referred for Criminal Prosecution	22%	N/A	N/A	Retired FY 25
Percentage of Opened Referrals Investigated and Charged	10%	N/A	N/A	Retired FY 25

<u>Fiscal Year 2027 MFR Submission</u>
The new metrics that will be utilized by the Fraud and Enforcement unit in the fiscal year 2027 MFR submission are:

- Number of Tier 1 criminal cases opened and referred for charges within 180 days.
- Number of Tier 2 criminal cases opened and referred for charges within 270 days.
- Number of Tier 3 criminal cases opened and referred for charges within 365 days.

A Tier 1 case involves 2 or less suspects, 2 or less victims, and losses of $50,000 or less. There is no organized crime activity suspected, and the anticipated level of complexity after initial supervisory review is average.

A case is categorized as Tier 2 if any of the following applies: 3 to 4 suspects, 3 to 4 victims, losses of $50,000 - $200,000, suspected organized crime activity, or the anticipated level of complexity after initial supervisory review is significantly above average.

A case is categorized as Tier 3 if any of the following applies: 5 or more suspects, 5 or more victims, losses above $200,000, or is identified as highly complex and requiring extensive time and resources after initial supervisory review.

<u>MIA Recruitment and Retention</u>

Retention and recruitment are key focuses of the MIA. Generally, the MIA maintains its workforce and is able to readily recruit and retain employees to fill many of its positions. However, the MIA has faced challenges in attracting qualified candidates for specialized professional roles due to various factors, notably its difficulty in matching the competitive salaries offered in comparable positions within the private sector.

As of 1/27/2025, there were 32 vacancies at the MIA, representing a vacancy rate of 12.4%. However, of the 32 positions vacant, eight will be filled between 2/5/25 and 2/19/25, five have offers being extended by 1/28/25, and the remainder are in active recruitment.

Effective strategies that the MIA has deployed over the last calendar year to reduce agency wide vacancies included:

Retention Strategies

- Enforcing non-competitive promotions with supervisors as staff become eligible.
- Encouraging and assisting hiring managers to evaluate and update current employees so that staff are properly and accurately reclassified.
- Converting temporary and contractual positions to full time PINS. In FY 2025 two contractual Market Conduct Examiner positions in the Market Regulation Unit were converted to regular PIN positions.

Recruitment Strategies

- Hiring managers are encouraged to review vacant MS22's and update them to reflect the responsibilities and skills sets now needed to do the job going forward.
- Hiring managers and HR are encouraged to evaluate grade/step levels to more accurately align with skills and to align compensation for highly competitive professional positions with other jurisdictions.
- Continuing to utilize several internet and Social Media (such as LinkedIn, Facebook, Twitter) platforms, as well as industry specific sites such as the Association of Compliance Professionals, the Society of Financial Examiners, as well as the Society of Actuaries to advertise vacant positions at the Agency.
- HR staff have attended a number of recruitment events throughout the year to source qualified applicants, and intend to broaden the events we attend throughout FY 2025 and the upcoming fiscal year.

The MIA thanks DLS for its thoughtful budget analysis, and appreciates the opportunity to provide this information to the Committee. We are happy to answer any further questions the Committee may have.

FISCAL EXHIBITS

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Exhibit 6
Insurance Tracking System Project Budget and Planned Spending
Fiscal 2021-2026

	2021-2023 Actual	2024 Actual	2025 Approp.	2026 Allowance	Total
IT Investment				$50,000	$50,000
MIA Special Funds	$2,278,000	$4,138,252	$4,000,000	7,623,877	18,040,129
Total	**$2,278,000**	**$4,138,252**	**$4,000,000**	**$7,673,877**	**$18,090,129**

MIA CORRECTION:

Exhibit 6
Insurance Tracking System Project Budget and Planned Spending
Fiscal 2021-2026

	2021-2023 Actual	2024 Actual	2025 Approp.	2026 Allowance	Total
IT Investment				$50,000	$50,000
MIA Special Funds	$2,278,000	$3,763,770	$9,181,572	7,623,877	22,847,219
Total	**$2,278,000**	**$3,763,770**	**$9,181,572**	**$7,673,877**	**$22,897,219**

MIA CORRECTION NOTES:
2024 Actual: Updated from Budget to Actual
2025 Approp.: Includes Budget Adjustment 005-25 ($5.181 million) approved by DBM and Governor.

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Appendix 2
MIA Legacy System Replacement
Major Information Technology Project
Maryland Insurance Administration

Additional discussion of this project can be found in Key Observation 1 of this analysis.

New/Ongoing: Ongoing								
Start Date: April 1, 2020				**Est. Completion Date:** May 1, 2026				
Implementation Strategy: Agile								
($ in Millions)	**Prior Year**	**2025**	**2026**	**2027**	**2028**	**2029**	**Remainder**	**Total**
GF	$0.000	$0.000	$0.050	$0.000	$0.000	$0.000	$0.000	$0.050
SF	2.280	4.140	7.620	0.000	0.000	0.000	0.000	18.040
Total	**$2.280**	**$94.140**	**$7.620**	**$0.000**	**$0.000**	**$0.000**	**$0.000**	**$18.090**

MIA CORRECTION:

Appendix 2
MIA Legacy System Replacement
Major Information Technology Project
Maryland Insurance Administration

Additional discussion of this project can be found in Key Observation 1 of this analysis.

New/Ongoing: Ongoing								
Start Date: April 1, 2020				**Est. Completion Date:** May 1, 2026				
Implementation Strategy: Agile								
($ in Millions)	**Prior Year**	**2025**	**2026**	**2027**	**2028**	**2029**	**Remainder**	**Total**
GF	$0.000	$0.000	$0.050	$0.000	$0.000	$0.000	$0.000	$0.050
SF	6.040	9.181	7.620	0.000	0.000	0.000	0.000	22.847
Total	**$6.040**	**$9.181**	**$7.670**	**$0.000**	**$0.000**	**$0.000**	**$0.000**	**$22.897**

MIA CORRECTION NOTES:

Prior Year: Updated to include FY2024 Actual

2025: Adjusted budget amount approved by DBM and the Governor (DLS Analysis indicates $94.140 million)

Added 005-25 to the 2026 total.