

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1098
Economic Matters

(Delegates Fraser-Hidalgo and Wilson)

Finance

**Insurance - Automobile Insurance - Maryland Automobile Insurance Fund and
Affordability Study**

This bill requires the Maryland Automobile Insurance Fund (MAIF) to (1) calculate and report its risk-based capital (RBC) level in the same manner as other insurers in the State; (2) maintain a total adjusted capital level above a certain threshold; and (3) implement its rate changes in accordance with prior approval (rather than file and use) ratemaking standards during a specified time period and under specified circumstances. The bill also requires the Maryland Insurance Administration (MIA) to establish a workgroup to study, among other things, the affordability of private passenger automobile insurance in the State. By January 1, 2026, the workgroup must report its findings and recommendations to the Governor and General Assembly. **The bill takes effect July 1, 2025; provisions related to the workgroup terminate June 30, 2026.**

Fiscal Summary

State Effect: MIA can meet the requirements of the bill using existing budgeted resources because MIA already has a workgroup substantially similar to the one required by the bill. Revenues are not affected.

Maryland Automobile Insurance Fund Effect: Nonbudgeted revenues for MAIF may be affected to the extent that the bill requires MAIF to reduce its investment income and to the extent that the bill results in an assessment, as discussed below. Expenditures are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: “Company action level RBC” means the product of 2.0 and the authorized control level RBC.

Risk-based Capital Reporting Requirements

MAIF must calculate and report its RBC level to the Insurance Commissioner using the same processes and pursuant to the same requirements that apply to other insurers required to report RBC levels. Beginning December 31, 2026, MAIF must maintain total adjusted capital in an amount greater than or equal to its company action level RBC.

Maryland Automobile Insurance Fund – Rate Making

The provisions of the Insurance Article that apply for prior approval rate making apply to the determination of MAIF’s premiums by the Executive Director of MAIF and the filing of rates with the Insurance Commissioner:

- between July 1, 2025, and December 31, 2025, both inclusive; and
- beginning January 1, 2026, if MAIF’s total adjusted capital is less than the amount required by the bill.

The bill makes a series of technical changes to specify that existing requirements that apply to MAIF’s rate making apply for prior approval rate making in addition to competitive rate making (*i.e.*, file and use rate making).

Maryland Insurance Administration Workgroup

MIA must establish a workgroup to study:

- the affordability of private passenger automobile insurance in the State, including factors that contribute to premium rate increases and trends in rate increases;
- policy options to provide greater transparency regarding automobile insurance premiums and to increase the affordability of automobile insurance in the State;
- ways in which “affordability” has been defined in the context of the establishment of private passenger automobile insurance premium rates;
- methodologies by which affordability can be considered in establishing private passenger automobile insurance rates consistent with ratemaking principles codified in the Insurance Article; and
- the current financial status of private passenger automobile insurers in the State and potential options to address excess profits.

When conducting this study, the workgroup must consider input from relevant stakeholders, including the reinsurance industry.

By January 1, 2026, the workgroup must report its findings to the Governor and General Assembly. Provisions related to the workgroup terminate June 30, 2026.

Current Law:

Relevant Definitions

The following terms are defined in statute, often by reference to each other:

- “Authorized control level RBC” means the number determined under RBC formula in accordance with RBC instructions.
- “Company action level RBC” means the product of 2.0 and the authorized control level RBC.
- “Mandatory control level RBC” means the product of 0.70 and the authorized control level RBC.
- “RBC” means risk-based capital.
- “RBC level” means an insurer’s company action level RBC, regulatory action level RBC, authorized control level RBC, or mandatory control level RBC, as relevant under the definitions specified.
- “RBC plan” means a comprehensive financial plan that contains the elements specified in the Insurance Article.
- “RBC instructions” means RBC instructions developed and adopted by the National Association of Insurance Commissioners (NAIC).
- “Regulatory action level RBC” means the product of 1.5 and the authorized control level RBC.
- “RBC report” means a report prepared by a domestic insurer and submitted to the Commissioner that details the domestic insurer’s RBC levels as of the end of the immediately preceding calendar year.
- “Total adjusted capital” means the sum of (1) an insurer’s statutory capital and surplus as determined in accordance with the statutory accounting principles applicable to the annual financial statements required to be filed under State law and regulations and (2) any other items provided for in RBC instructions.

Insurance Regulation – Generally

Insurance in the State is regulated by MIA, an independent agency headed by the Insurance Commissioner, whom the Governor appoints with the advice and consent of the Senate. The administration licenses, examines, and audits insurance companies operating in the

HB 1098/ Page 3

State; reviews rates and policies; collects premium and retaliatory taxes; licenses producers; investigates fraud as well as consumer complaints regarding insurance and health plan coverage; and educates the public on insurance matters.

Rate Making

Insurance Law includes guidelines and instructions related to the manner in which insurers calculate and apply their premium rates to ensure such rates do not become excessive, inadequate, or unfairly discriminatory. With limited exception, rates must generally be filed with MIA prior to being used. Among other requirements, Insurance Law includes ratemaking specifications that only apply to automobile insurance, processes MIA must follow when disapproving of a rate filing, and special ratemaking principles that must be followed by an insurer under certain circumstances.

Notably, under certain circumstances, automobile insurers are authorized to use “competitive rating,” which allows the insurer to implement a new rate concurrent with the rate being filed with MIA for approval. This is generally referred to as file and use rating.

Risk-based Capital Report

Each domestic insurer must prepare and submit to the Commissioner an annual report of its RBC levels for the preceding calendar year. Each report must also be filed with NAIC. If the Commissioner determines that the filed RBC report is inaccurate, the Commissioner adjusts the RBC report to correct the inaccuracy and notifies the insurer of the adjustment, including a statement of the reason for the adjustment.

RBC standards for property and casualty insurers are determined by a formula that follows RBC instructions developed by NAIC. The formula must take into account and may adjust for the covariance between asset risk, credit risk, underwriting risk, and all other business risks and other relevant risks as stated in NAIC’s RBC instructions.

Company Action Level Event

A company action level event occurs when an insurer files an RBC report that indicates that the insurer has total adjusted capital that is greater than or equal to its regulatory action level RBC and less than its company action level RBC. If a company action level event takes place, the insurer must prepare and submit to the Commissioner an RBC plan that:

- identifies the conditions that contribute to the company action level event;
- contains proposals of corrective actions that the insurer intends to take and that would be expected to result in the elimination of the company action level event;

- provides projections of the insurer's financial results in the current year and at least the four succeeding years that (1) project financial results, as specified; (2) include projections of statutory operating income, net income, capital, and surplus; and (3) for both new and renewal business, include separate projections for each major line of business and separately identify each significant income, expense, and benefit component;
- identifies the key assumptions that impact the insurer's projections and the sensitivity of the projections to the assumptions; and
- identifies the quality of and the problems associated with the insurer's business, including its assets, anticipated business growth and associated surplus strain, extraordinary exposure to risk, mix of business, and use of reinsurance, as appropriate.

Industry Automobile Insurance Association and Assessment Processes

The Industry Automobile Insurance Association (IAIA) is an association that consists of all insurers in the State (except for MAIF) that are licensed to issue motor vehicle liability insurance or motor vehicle physical damage insurance. Any such insurer must join IAIA as a condition of its authority to sell insurance. IAIA is governed by its Board of Directors, and it is responsible for, among other things, working with the Insurance Commissioner and MAIF to calculate, assess, and collect the MAIF assessment. Chapter 535 of 2023 modified the assessment process, much of which is statutorily required. The process generally takes place in the following manner:

- When notified that an assessment is necessary by MAIF, the IAIA Board of Directors must calculate the assessment in the manner specified by State law.
- IAIA first obtains from the Commissioner the net direct written premium for all association members.
- Using the information from the Commissioner, IAIA calculates the assessment allocation percentages and gives notice of the assessment allocation percentages to MAIF, the Commissioner, and all IAIA members.
- The Commissioner must promptly review the assessment allocation percentages and, unless the Commissioner finds them to be inaccurate, authorize each IAIA member to impose the assessment on its policyholders, as specified.
- The IAIA Board of Directors must promptly assess and collect the assessment from its members in the manner specified by State law.
- MAIF must also assess its own policyholders in the manner specified by State law.
- Funds collected from the assessment must be deposited in the Insufficiency Assessment Reserve Fund and then paid to MAIF in one sum, as specified.

- Any money in the Insufficiency Assessment Reserve Fund from a previous year must be paid to MAIF on December 31 of each year.

Prior to the enactment of Chapter 535, there were additional processes to handle overassessment payments from IAIA members; however, Chapter 535 repealed these processes and instead requires IAIA members to immediately be reimbursed for any overassessment.

MAIF Fiscal Effect: MAIF currently prepares and submits to MIA the RBC calculation required by the bill annually and advises that it generally does not implement a rate increase without prior MIA consultation. Nevertheless, the provisions of the bill may affect MAIF revenues by reducing investment income (and consequently its ongoing surplus) and increasing the risk of an assessment.

The NAIC RBC instructions apply a factor to all investments. Higher-risk factors are assigned to equity investments as compared to bonds. This means, under the bill's proposed RBC requirements, holding equities increases MAIF's required capital, which could lead to a reduction in equity exposure in favor of more stable, lower-risk fixed-income investments. Additionally, the bill may increase the total adjusted capital MAIF is required to maintain to be above the proposed formula referenced in the bill (company action level RBC). MAIF advises that meeting this requirement may require it to reduce its investment income.

MAIF advises that its investment income has historically been applied to offset, or reduce, the amount of a potential MAIF assessment. To the extent that an assessment is required to take place, the total amount of the assessment may increase under the bill to account for the reduction in investment income.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland Automobile Insurance Fund; Maryland Insurance Administration; Comptroller's Office; Department of Legislative Services

Fiscal Note History: First Reader - February 18, 2025
rh/rld Third Reader - March 27, 2025
Revised - Amendment(s) - March 27, 2025
Revised - Clarification - March 27, 2025

Analysis by: Kayvon Samadani

Direct Inquiries to:
(410) 946-5510
(301) 970-5510