

**D70J00**  
**Maryland Automobile Insurance Fund**

**Program Description**

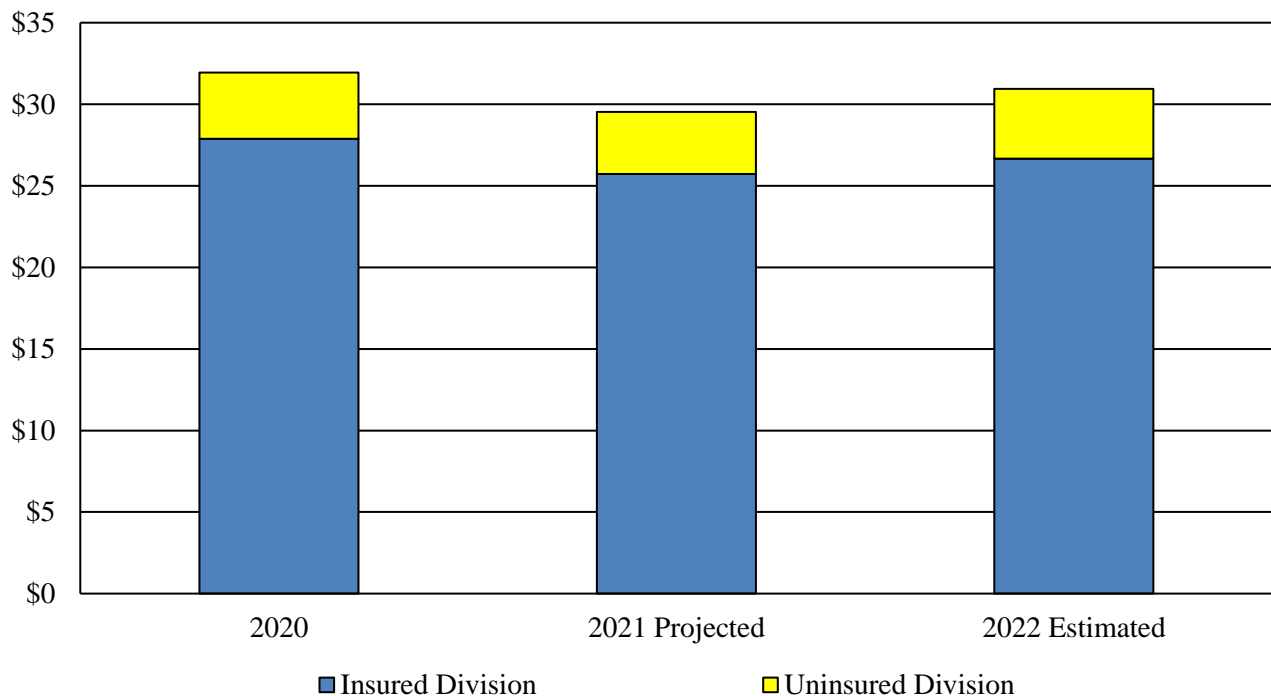
The Maryland Automobile Insurance Fund (Maryland Auto) is an independent, nonbudgeted State agency. Similar to other insurance companies, Maryland Auto operates on a calendar year basis.

Maryland Auto is organized into two divisions. The Insured Division is the automobile insurer of last resort for Maryland residents. The Insured Division, like other automobile insurance carriers, handles claims for policyholders and is funded through premiums, investment income, and, when necessary, a surcharge on premiums statewide. The Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured or for hit-and-run incidents where a responsible party cannot be found. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, the Uninsured Division receives income from investments and uninsured motorist fines.

***Operating Budget Summary***

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**Calendar 2022 Budget Increases \$1.4 Million, or 4.7%, to \$30.9 Million**  
**(\$ in Millions)**



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**Calendar 2022 Budget**

As shown in **Exhibit 1**, the proposed budget for Maryland Auto in calendar 2022 is expected to increase by \$1.4 million compared to calendar 2021. However, calendar 2021 numbers have not been finalized and are subject to change.

**Exhibit 1  
Proposed Budget  
Maryland Automobile Insurance Fund  
(\$ in Thousands)**

	<u>Insured Division</u>	<u>Uninsured Division</u>	<u>Nonbudgeted Fund Total</u>
Calendar 2021 Estimated	\$25,715	\$3,817	\$29,532
Calendar 2022 Proposed Budget	<u>26,663</u>	<u>4,281</u>	<u>30,944</u>
Calendar 2021-2022 Amount Change	\$948	\$464	\$1,412
Calendar 2021-2022 Percent Change	3.7%	12.2%	4.8%

**Where It Goes:**

**Personnel Expenses**

*Insured Division*

Salaries (noncontractual) .....	\$40
Related expenses .....	-978

*Uninsured Division*

Related expenses .....	192
Salaries (noncontractual) .....	14

**Other Changes**

*Insured Division*

Incentive compensation .....	1,552
Purchase of computer software/equipment and maintenance .....	294
Outside services .....	85
Contractual salary .....	5

*Uninsured Division*

Media .....	137
Technical service and support.....	77
Incentive compensation .....	38
Contractual salary .....	-5

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<b>Where It Goes:</b>	<b><u>Change</u></b>
<i>Combined Expenses</i>	
Other changes.....	-39
<b>Total</b>	<b>\$1,412</b>

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis. Numbers may not sum to total due to rounding.

Source: Maryland Automobile Insurance Fund

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### **Insured Division**

**Exhibit 2** presents the financial statement of the Insured Division of Maryland Auto. In calendar 2022, the Insured Division’s income is projected to decrease by approximately \$14.7 million compared to calendar 2021, due to falling earned premium income and investment income. The agency liquidated investments in 2021 to meet operational needs. This decrease in earned premium income is mirrored in the data on vehicles insured, illustrated in **Exhibit 3**, which shows roughly 6,565 fewer policies in force by Maryland Auto in calendar 2021 versus 2020.

**Exhibit 2**  
**Maryland Automobile Insurance Fund**  
**Insured Division Financial Statement**  
**Calendar 2020-2022**

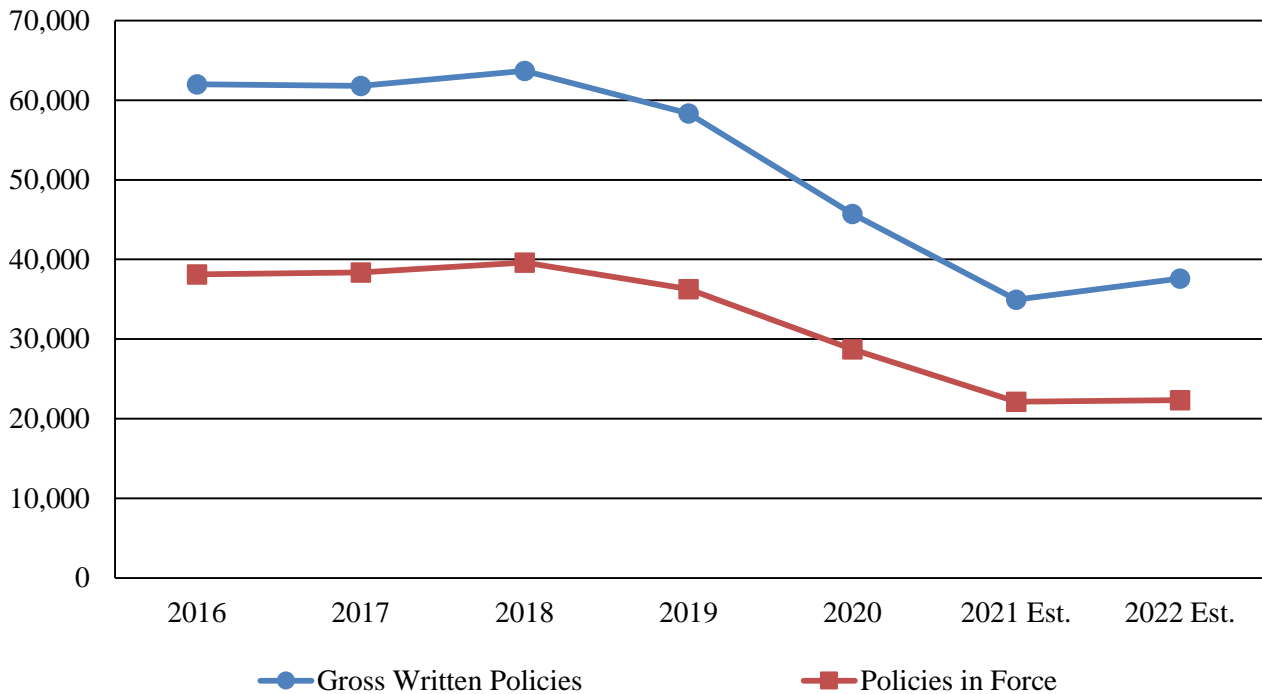
	<u>Actual 2020</u>	<u>Projected 2021</u>	<u>Projected 2022</u>
Earned Premium	\$75,727,758	\$61,280,144	\$53,418,290
Investment Income	9,460,958	9,752,199	2,814,330
Other Income	57,678	30,000	95,530
<b>Income</b>	<b>\$85,246,394</b>	<b>\$71,062,343</b>	<b>\$56,328,150</b>
Claims Incurred	\$41,727,571	\$43,972,073	\$37,901,669
Claims Expenses Incurred	19,078,277	18,418,926	18,631,555
Other Expenditures	16,613,078	13,578,265	14,352,283
<b>Expenditures</b>	<b>\$77,418,926</b>	<b>\$75,969,264</b>	<b>\$70,885,507</b>
<b>Net Gain or Loss</b>	<b>\$7,827,468</b>	<b>-\$4,906,921</b>	<b>-\$14,557,357</b>
Beginning Surplus	\$46,327,426	\$54,018,456	\$49,207,658
Net Income	7,372,467	-4,906,921	-14,287,357
Change in Unrealized Gains	129,324	52,553	
Change to Nonadmitted Assets	189,238	43,571	
Release of Overrecoupment	0	0	0
<b>Ending Surplus</b>	<b>\$54,018,455</b>	<b>\$49,207,659</b>	<b>\$34,920,301</b>
Assessment Threshold		\$18,400,055	\$11,512,201
<b>Ratio of Surplus to Assessment Threshold</b>		<b>2.67</b>	<b>3.03</b>

Note: The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2021 and 2022 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

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**Exhibit 3**  
**Policies Issued by Insured Division**  
**Calendar 2016-2022 Est.**



Source: Maryland Automobile Insurance Fund

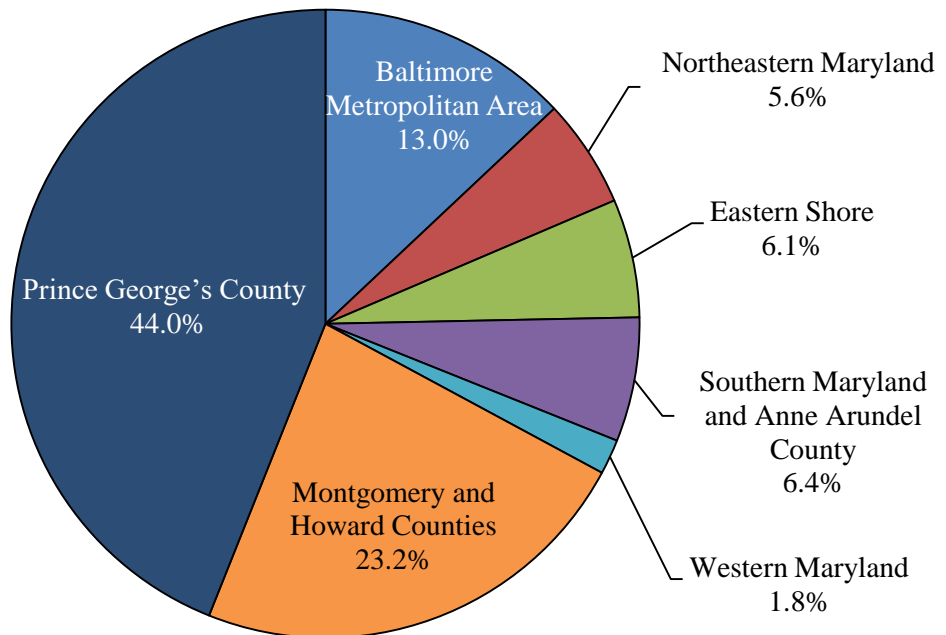
Total expenditures are projected to decrease by \$5.1 million in calendar 2022 versus 2021. The Insured Division is projected to have a net operating loss of \$14.6 million in calendar 2022. This would lead to an estimated ending surplus of approximately \$34.9 million in calendar 2022, down from approximately \$49.2 million in calendar 2021. **Maryland Auto should comment on the financial health of the Insured Division and the likelihood of imposing an assessment in the future.**

The decrease in policies referenced in the financial statement can be seen in Exhibit 3. Gross written policies in the Insured Division have continued to decrease, falling 24% from 45,737 in calendar 2020 to an estimated 34,959 in calendar 2021. There is also a 23% decrease in policies in force projected for calendar 2021. Gross written policies are projected to increase 7.5% in calendar 2022. Maryland Auto believes that the continued decrease in policies is a result of the ongoing COVID-19 pandemic and industry changes in underwriting practices of other auto insurers to maintain their market share.

## Active Vehicle Analysis

**Exhibit 4** provides information on the geographic distribution of vehicles insured by Maryland Auto in calendar 2021. Prince George’s County had the highest share of the vehicles insured at 44.0%, with Montgomery and Howard counties, collectively, with the next highest share at 23.2%.

**Exhibit 4**  
**Active Vehicle Analysis**  
**Calendar 2021**



Source: Maryland Automobile Insurance Fund

## Uninsured Division

**Exhibit 5** presents the financial statement of the Uninsured Division of Maryland Auto. The Uninsured Division’s largest source of income is revenue received from the Motor Vehicle Administration (MVA) uninsured motorist fine per Transportation Article § 17-106. Maryland Auto’s share in calendar 2022 is projected to be \$4.2 million, a 3.5% increase from calendar 2021.

**Exhibit 5**  
**Maryland Automobile Insurance Fund**  
**Uninsured Division Financial Statement**  
**Calendar 2020-2022**

	<u>Estimated 2020</u>	<u>Projected 2021</u>	<u>Projected 2022</u>
MVA Fines	\$3,794,340	\$4,221,156	\$4,368,896
Collections on Notes and Judgements	666,855	660,000	625,000
Investment Income	55,669	12,745	20,000
Other Income	20,636	10,807	0
MVA Amnesty Program	2,490,906	338,071	0
<b>Income</b>	<b>\$7,028,406</b>	<b>\$5,242,779</b>	<b>\$5,013,896</b>
Claims Incurred	\$672,735	2,994,261	\$3,173,917
Claims Expenses Incurred	786,752	941,992	970,252
Collection Expenses	486,317	630,244	649,152
Administrative Expenses	1,395,651	2,178,361	2,415,997
MVA Amnesty Program	1,132,523	576,678	0
<b>Expenditures</b>	<b>\$4,473,978</b>	<b>\$7,321,536</b>	<b>\$7,209,318</b>
<b>Net Gain or Loss</b>	<b>\$2,554,428</b>	<b>-\$2,078,757</b>	<b>-\$2,195,422</b>
Beginning Surplus	2,605,152	5,050,362	2,964,607
Net Income	2,554,427	-2,078,757	-2,195,422
Unrealized Gain	3,063	-6,997	0
<b>Ending Surplus</b>	<b>\$5,162,642</b>	<b>\$2,964,608</b>	<b>\$769,186</b>

MVA: Maryland Vehicle Administration

Note: The MVA Amnesty Program is a one-time source of program funds. The Maryland Automobile Insurance Fund reports its financial statements by calendar year in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2021 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

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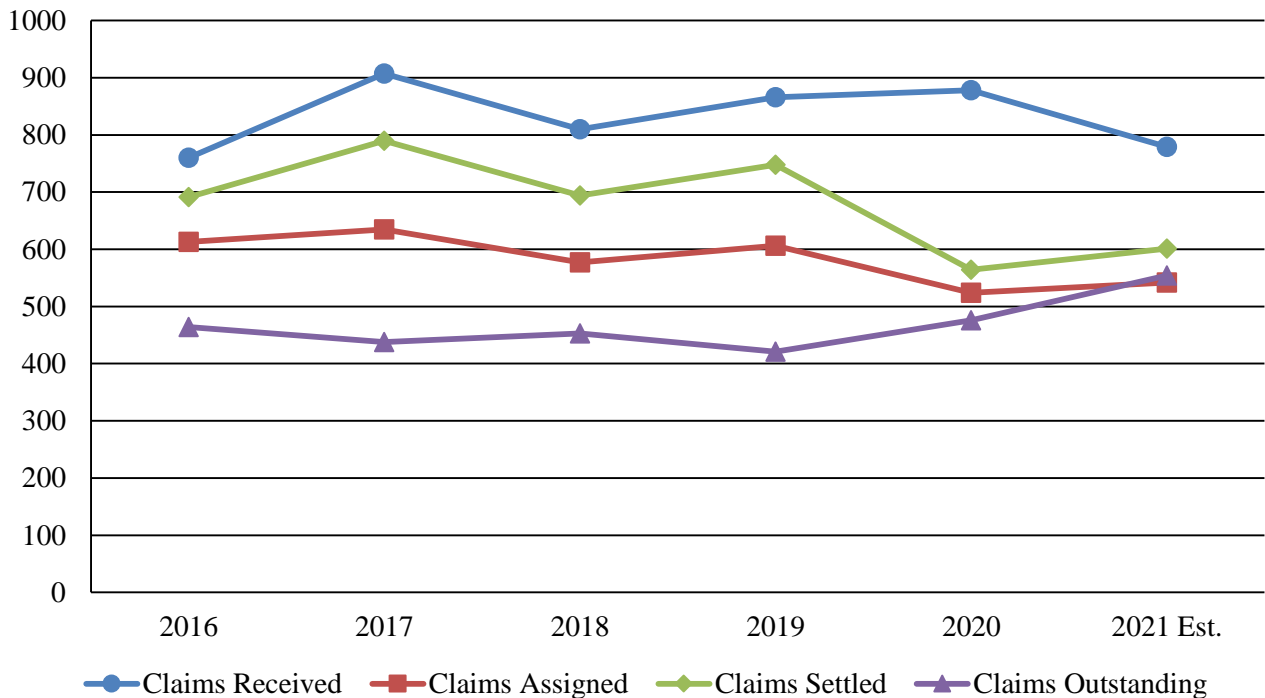
The Uninsured Division's overall income for calendar 2021 is projected to be \$5.2 million, a decrease of \$1.8 million from calendar 2020. This decrease can be attributed to the one-time MVA Amnesty Program that contributed \$2.5 million in calendar 2020 but only \$338,071 in calendar 2021. Meanwhile, calendar 2021 expenditures are expected to grow \$2.8 million over calendar 2020. Due to expenditures outpacing income, the Uninsured Division is expected to have a net loss of \$2.1 million in calendar 2021, reducing the end-of-year surplus from \$5.1 million in calendar 2020 to \$2.9 million at the end of calendar 2021. For calendar 2022, the overall income is projected to decrease slightly to

\$5.0 million and expenditures are expected to continue to outpace income. The Uninsured Division’s expenses are expected to be \$7.2 million in calendar 2022. The ending surplus for calendar 2022 is projected to be \$769,186. **Maryland Auto should comment on how the shrinking surplus will affect the Uninsured Division.**

### Uninsured Division’s Claims

**Exhibit 6** shows the claims activity for Maryland Auto’s Uninsured Division. Claims assigned are a function of the eligible claims received. Uninsured claims received decreased in calendar 2021 by 11%. While claims settled and claims assigned are projected to rebound, they are expected to remain below prepandemic levels. Claims outstanding continue to outpace prepandemic levels. A contributor to the increase in uninsured claims outstanding is the closing/limited operations of courts in calendar 2020, leading to cases being delayed to calendar 2021.

**Exhibit 6**  
**Uninsured Division’s Claims Activity**  
**Calendar 2016-2021 Est.**



Source: Maryland Automobile Insurance Fund



## Key Observations

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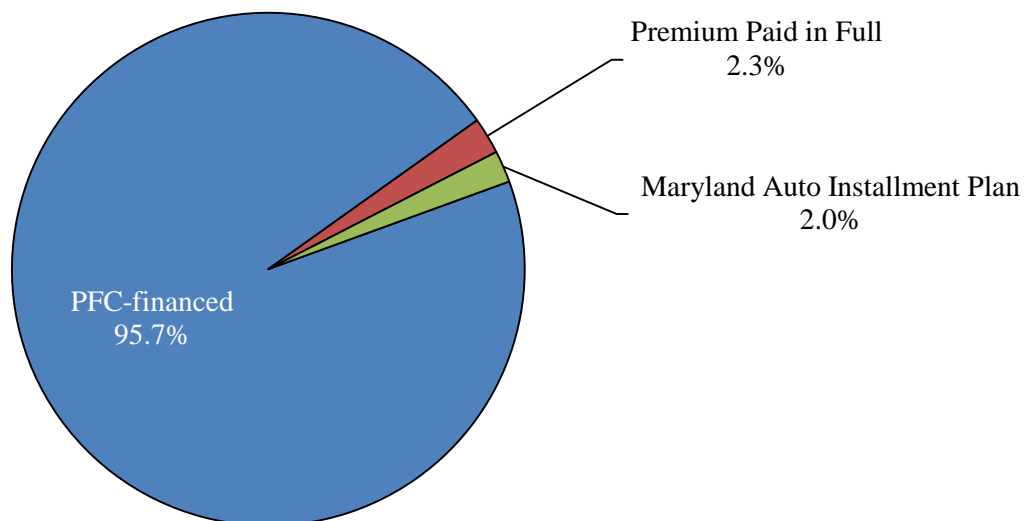
### 1. Installment Plan

As a result of Chapter 334 of 2013, Maryland Auto was authorized to begin accepting installment payment plans beginning October 1, 2013. Previously, Maryland Auto had required either payment of a full year’s plan or the acceptance of a loan agreement through a premium finance company (PFC). Current law allows for four different payment plans depending on the cost of the annual premium. If the total annual premium is less than \$3,000, policyholders have the option to pay a 25% down payment and then pay the balance over either three or six payments. For policies that have a total annual cost of \$3,000 or more, policyholders have the option to pay a 20% down payment and pay the balance in either four or eight installments.

**Exhibit 7** shows the breakdown between PFC-financed premiums, premiums paid in full, and the installment payment plan. Maryland Auto customers are continuing to choose the PFC-financed premium payments over the installment payment plan. Since 2013, installment payment plans have accounted for only 2.0% of policies issued by Maryland Auto. The vast majority of policies issued, 95.7%, have been PFC-financed.

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**Exhibit 7**  
**Methods of Premium Payments**  
**Calendar 2013-2021**



PFC: premium finance company

Note: Data for policies issued October 1, 2013, to December 31, 2021.

Source: Maryland Automobile Insurance Fund

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Maryland Auto believes that the high down payment required by statute discourages the use of the installment plan option, particularly by low-income drivers. The typical plan offered by PFCs requires a down payment of between 10% and 12%. This lower down payment is combined with interest as a service cost of the loan and is estimated to be an additional \$250.

SB 278/HB 377 of 2022 propose to remove the statutory restrictions requiring high down payments and a limited number of installment payments. The goal of the legislation is to make the installment plan policies more financially attractive to Maryland drivers. **Maryland Auto should comment on the impact that the proposed installment plan legislation will have on uninsured drivers as well as the financial position of the Uninsured Division.**

***Operating Budget Recommended Actions***

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1. Nonbudgeted.

**Appendix 1**  
**2021 Joint Chairmen’s Report Responses from Agency**

The 2021 *Joint Chairmen’s Report* (JCR) requested that Maryland Auto prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Installment Payment Plan Legislation Report:*** Maryland Auto was tasked with a submitting a report to confirm if it would be seeking legislation to modify the down payments for its installment payment plans. The agency will be pursuing legislation to allow it to lower the down payments required of its installment payment plans. This issue is further addressed in Key Observation 1.