

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	<u>CY 02 Budget</u>	<u>CY 02 Actual</u>	<u>CY 03 Estimated</u>	<u>Change</u>	<u>% Change Prior Year</u>
Nonbudgeted Fund	\$39,309	\$45,033	\$53,898	\$8,865	19.7%
Total Funds	\$39,309	\$45,033	\$53,898	\$8,865	19.7%

- Total funds increase by \$8.9 million (19.7%) from calendar 2002 to 2003.
- The Maryland Automobile Insurance Fund (MAIF) anticipates an operating loss for the third year in a row because of a dramatic increase in claims that outpaces income from policies and investments.

Personnel Data

	<u>CY 02 Budget</u>	<u>CY 02 Actual</u>	<u>CY 03 Estimated</u>	<u>Change</u>
Regular Positions	448.00	543.00	573.00	30.00
Contractual FTEs	2.00	2.50	2.50	0.00
Total Personnel	450.00	545.50	575.50	30.00

- MAIF expects to add 30 new positions in the Insured Division from calendar 2002 to 2003. The new positions are a response to an estimated increase in applications and claims volumes.
- MAIF had included 450 positions in its calendar 2002 budget, but ended the year with 545.5 positions. The additional 95.5 positions in the Insured Division are due to the increase in applications and claims volumes.

Analysis in Brief

Major Trends

Maryland Automobile Insurance Market: During the late 1990s, MAIF witnessed a significant drop in the number of insurance applications received from Maryland vehicle owners unable to obtain automobile insurance from the private market. Starting in the second half of calendar 2000 and continuing to calendar 2003, the automobile insurance market has seen a tightening of the underwriting criteria by private companies due to increasing loss ratios being experienced by the property and casualty industry. For calendar 2002, MAIF received insurance applications at a volume that was 32% higher than that seen in calendar 2001 and 83% higher than calendar 2000. MAIF's business is historically counter cyclical to the economy in general. Therefore, if the economy continues to deteriorate, MAIF is likely to experience a continuing increase in the number of policyholders it insures.

Recommended Actions

1. Nonbudgeted.

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Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) was created by Chapter 73, Acts of 1972 to replace the Maryland Automobile Insurance Plan and the Uninsured Claim and Judgment Fund. MAIF is not part of any department of the State government but is a nonbudgeted, independent body, reporting directly to the Governor's Office and also responsive to the legislature. MAIF operates on a calendar year basis and performs two major functions: (1) writing insurance policies for those Maryland residents whose applications have been declined by private insurers in the State and (2) administering and paying claims to Maryland residents who are involved in Maryland accidents with uninsured motorists, or hit and run incidents where the injured party does not own a motor vehicle. The Insured Division handles the first function and the Uninsured Division handles the second function. MAIF is required to assess a surcharge on the Maryland auto insurance industry whenever the MAIF surplus falls below the assessment threshold level and MAIF has an operating loss. The threshold is defined as 25% of the average written premiums for the previous three years. MAIF's mission addresses the need to:

- offer insurance to all eligible Maryland citizens who are unable to obtain insurance in the private market;
- handle claims for MAIF policyholders and claimants in a fair, expeditious, and professional manner; and
- provide efficient services to minimize the subsidy from the insured motorists of Maryland.

Performance Analysis: Managing for Results

A review of MAIF program measurement data and performance measures helps convey overall trends as well as performance within both the Insured and Uninsured Divisions. **Exhibit 1** provides program measurement data for the Insured Division of MAIF. The data show that there has been a dramatic increase in the number of policies written. MAIF estimates that 213,800 gross policies will be written in calendar 2003. This is a 28.7% change from 166,136 policies written in calendar 2002. MAIF is also experiencing an increase in the number of reported claims. MAIF estimates that 118,100 claims will be reported in calendar 2003, an increase of 23.2% from 95,833 reported claims in calendar 2002.

Exhibit 1

Program Measurement Data
Maryland Automobile Insurance Fund
Insured Division
Calendar 2000 through 2003

	CY 2000 <u>Actual</u>	CY 2001 <u>Actual</u>	CY 2002 <u>Estimated</u>	CY 2002 <u>Actual*</u>	CY 2003 <u>Estimated</u>	CY 00-02 <u>Ann. Chg.</u>	CY 02-03 <u>Ann. Chg.</u>
Gross Written Policies	97,260	134,893	161,400	166,136	213,800	30.7%	28.7%
Net Written Policies	46,178	86,817	96,400	91,347	138,500	40.6%	51.6%
Reported Claims	52,002	71,329	90,400	95,833	118,100	35.8%	23.2%
Reported Accidents	27,023	37,354	46,700	50,229	61,800	36.3%	23.0%
Paid Claims	32,571	39,830	51,300	54,967	67,000	29.9%	21.9%
Claims Outstanding	8,595	11,959	14,900	13,465	13,500	25.2%	0.3%

* The actual 2002 figures are subject to change due to year-end audit adjustments.

Source: Maryland Automobile Insurance Fund

Exhibit 2 provides performance measures for both the Insured and Uninsured Divisions of MAIF. A review of the submitted Managing for Results (MFR) performance data shows that performance is moving (or is estimated to move) in a positive direction. MAIF effectively links its performance measures to goals and objectives.

Objective 1.1 in the Insured Division is to process private passenger new business and rewrite applications in an average of 8 days for calendar year 2003. MAIF processed applications in an average of 20.3 days for calendar 2000, 19.6 days for calendar 2001, and estimates 8 days for calendar 2002 and 2003.

Objective 2.1 in the Insured Division is to maintain a closure ratio at or above 100%. MAIF achieved a 99.9% closure ratio for calendar 2000, a 92.4% closure ratio for calendar 2001, and estimates a 100% closure ratio for calendar 2002 and 2003.

Objective 1.1 in the Uninsured Division is to maintain a closure ratio at or above 100%. MAIF achieved a 119.1% closure ratio for calendar 2000, a 112% ratio for calendar 2001, and estimates a 100% closure ratio for calendar 2002 and 2003. For calendar 2000 and 2001, MAIF closed more claims than were available for the calendar year.

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MAIF should comment on its ability to meet Objectives 1.1 and 2.1 in the Insured Division and Objective 1.1 in the Uninsured Division given the recent increase in policies written and claims. MAIF should also comment on whether the increase in policies written and claims is negatively affecting overall performance.

Exhibit 2

**Performance Measures
Maryland Automobile Insurance Fund
Calendar 2000 through 2003**

	<u>CY 2000 Actual</u>	<u>CY 2001 Actual</u>	<u>CY 2002 Estimated</u>	<u>CY 2003 Estimated</u>	<u>CY 00-01 Ann. Chg.</u>	<u>CY 00-03 Ann. Chg.</u>
Total number of private passenger new applications received (Ins. Division)	97,260	134,893	178,000	214,000	38.7%	30.1%
Number of private passenger new applications processed (Ins. Division)	85,526	137,094	178,000	214,000	60.3%	35.8%
Average number of days to process private passenger new applications (Ins. Division)	20.3	19.6	8.0	8.0	-3.5%	-26.7%
Number of MAIF claims (Ins. Division)	33,463	44,059	55,000	68,000	31.7%	26.7%
Number of MAIF claims closed (Ins. Division)	33,425	40,694	55,000	68,000	21.8%	26.7%
Closure ratio (Ins. Division)	99.9%	92.4%	100%	100%	1.0%	1.0%
Number of claims available (Uninsured Division)	888	909	1,050	1,050	2.4%	5.7%
Number of claims closed (Uninsured Division)	1,058	1,019	1,050	1,050	-3.7%	-0.3%
Closure ratio (Uninsured Division)	119.1%	112%	100%	100%	-6.0%	-5.7%

Objective 1.1, Insured Division To process private passenger new business and rewrite applications in an average of 8 days for calendar year 2003.

Objective 2.1, Insured Division MAIF will maintain a closure ratio at or above 100%.

Objective 1.1, Uninsured Division Maintain a closure ratio at or above 100%.

Source: Maryland Automobile Insurance Fund

Adjustments to the Current Budget

MAIF began calendar 2002 with a projected budget of \$39,308,583 and anticipated 144,900 policies. MAIF ended calendar 2002 with a projected budget of \$45,032,906 and 166,136 policies. Calendar 2002 actual figures are subject to change due to year end audit adjustments. MAIF expects a budget of \$53,897,764 and another increase to 213,800 policies for calendar 2003.

In response to rising demand, MAIF increased its personnel in the Insured Division in calendar 2002. MAIF had included 450 positions in its calendar 2002 budget but ended the year with 545.5 positions. The reported claim count for calendar 2002 is projected to be 22.3% higher than that used for the calendar 2002 budget. The additional 95.5 positions in the Insured Division are due to the increased applications and claims volumes.

MAIF has experienced few personnel changes in the Uninsured Division. MAIF had included 19.5 employees in its calendar 2002 budget but ended the year with 18.5 positions. MAIF estimates 18.5 employees for calendar 2003.

Governor's Proposed Budget

MAIF is a nonbudgeted, independent body that is not part of any department of the State government. MAIF operates on a calendar year basis, and actual figures labeled 2002 are subject to close-out adjustments. The budget for calendar 2003 is the projected budget adopted by MAIF.

The overall budget increases by \$8.9 million (19.7%) from calendar 2002 to 2003. The rise in policy holders that began in late calendar 2000 is expected to continue into calendar 2003. The \$8.9 million increase from calendar 2002 to 2003 reflects this trend. The addition of 30 new employees from calendar 2002 to 2003 accounts for an increase of nearly \$3.2 million. Other changes from calendar 2002 to 2003 include an increase of over \$2 million for the insurance premium tax, a \$650,012 increase for treaty reinsurance, and a \$335,000 increase for communications including postage and telephone.

Exhibit 3 shows the distribution of funds comparing calendar 2002 with 2003.

Exhibit 3

**Governor's Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)**

	<u>Nonbudgeted Fund</u>	<u>Total</u>
2002 Actual	\$45,033	\$45,033
2003 Estimate	\$53,898	\$53,898
Amount Change	\$8,865	\$8,865
Percent Change	19.7%	19.7%

Where It Goes:

Personnel Expenses

New positions.....	\$3,166
Health insurance.....	829
Social security	279
Retirement.....	174
Other adjustments	212
Personnel Subtotal	\$4,660

Other Changes

Insurance premium tax.....	2,040
Treaty reinsurance.....	650
Commercial reporting services	284
Appraisals for underwriting purposes	272
Communications including postage and telephone.....	335
Rent and insurance coverage.....	389
Contractual services including advertising, printing, and equipment rental	301
Reduction for motor vehicle operations and maintenance.....	-91
Travel	15
Miscellaneous adjustments	10

Total	\$8,865
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Note: Numbers may not sum to total due to rounding.

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Exhibit 4 provides financial information for the Insured Division. MAIF anticipates an operating loss for a third year in a row because of a dramatic increase in claims that outpaces income from policies and investments. However, the estimated loss for calendar 2003 is smaller than the loss for 2002 mainly because of MAIF's insurance rate increase. MAIF's surplus for the Insured Division decreases at a 32.58% annual rate from calendar 2001 through 2003. The calendar 2003 estimated surplus is only slightly above the required assessment threshold. The assessment threshold is 25% of the average of the last three years' direct written premiums.

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Exhibit 4

**Insured Division
Maryland Automobile Insurance Fund
Calendar 2001 through 2003**

	CY 2001 Actual	As of 11/30/2002 Actual*	CY 2003 Estimated**
Earned Premium	\$124,818,835	\$164,312,983	\$310,250,000
Investment Income	18,651,793	-4,598,378*	13,800,000
Other Income	378,634	90,605	94,000
Income	\$143,849,262	\$159,805,210	\$324,144,000
Claim Incurred	\$108,220,761	\$141,001,456	\$231,136,000
Claim Expenses Incurred	21,457,011	27,382,850	52,743,000
Other Expenses	30,391,592	34,521,437	58,919,000
Expenditures	\$160,069,364	\$202,905,743	\$342,798,000
Net Gain (Loss)	(\$16,220,102)	(\$43,100,533)	(\$18,654,000)
Beginning Surplus	\$152,374,980	\$126,155,519	\$76,000,000
Net Income	(16,220,102)	(43,100,533)	(18,654,000)
Change to Non-admitted	(9,999,359)	(2,155,616)	0
Estimated Change to Claim Reserve		(5,000,000)*	
Ending Surplus	\$126,155,519	\$75,899,370	\$57,346,000
Assessment Threshold	\$29,376,410	\$39,987,165	\$57,105,504
Surplus to Assessment Threshold Ratio	4.29	1.90	1.00

* MAIF is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. 2002's financial results are as of 11/30/2002, with two December adjustments: 1) the sale of much of the equities in order to transition to new managers, and 2) an estimate of the year-end claim reserve change. Year-end adjustments and reserve changes may significantly change the results. All 2002 numbers are subject to adjustment.

** Estimated 2003 Statutory Results as shown above do not include any anticipated capital gains resulting from the sale of invested assets, or changes in Unrealized Gains or Losses to Surplus.

Source: Maryland Automobile Insurance Fund

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Exhibit 5 provides information on the Insured Division assessment threshold. MAIF statute established the assessment threshold as 25% of the average of the last three years' direct written premiums. For calendar 2003, MAIF estimates a three-year average of \$228,422,017 in direct written premiums. 25% of the three-year average is \$57,105,504, which represents the assessment threshold for calendar 2003. If MAIF's surplus drops below the assessment threshold and MAIF has an operating loss, it will have to certify an assessment to all other insurance companies doing business in Maryland. The insurance companies pass the assessment on to policyholders.

Given that MAIF's estimated surplus for calendar 2003 is only slightly above the assessment threshold, MAIF should comment on whether it will have to certify an assessment to all other insurance companies doing business in Maryland.

Exhibit 5

**Insured Division
Maryland Automobile Insurance Fund
Minimum Assessment Threshold**

<u>Calendar Year</u>	<u>Direct Written Premium</u>	<u>Three-year Average</u>	<u>Minimum Required Surplus</u>
1999	\$92,670,945		
2000	103,579,924		
2001	156,266,052	\$117,505,640	\$29,376,410
Est. 2002	220,000,000	159,948,659	39,987,165
Est. 2003	\$309,000,000	\$228,422,017	\$57,105,504

Source: Maryland Automobile Insurance Fund

Budget Reconciliation and Financing Act of 2002 and 2003

The Budget Reconciliation and Financing Act (BRFA) of 2002 (Chapter 440, Acts of 2002) transferred \$20 million from the MAIF Uninsured Division to the general fund. The \$20 million was transferred in late June 2002. **Exhibit 6**, a financial statement of the Uninsured Division, reflects the \$20 million transfer to the State. The transfer significantly reduced the Uninsured Division surplus.

The BRFA of 2002 also restored Motor Vehicle Administration (MVA) fines to \$2,000,000 annually for the Uninsured Division. Legislation was enacted in 2001 that diverted MVA fine money to the Transportation Trust Fund from July 1, 2001, through July 30, 2007. The \$2,000,000 in MVA fines will be adjusted annually for the Consumer Price Index (CPI)-All Urban Consumers-Medical Care as published by the United States Bureau of Labor Statistics. Exhibit 6 shows the distribution of MVA fines to the Uninsured Division from calendar 2001 through 2003.

The BRFA of 2003 contains a provision that transfers \$3,000,000 from the Uninsured Division of MAIF into the general fund. The transfer is expected to occur on June 30, 2004. In addition, the bill changes the amount of MVA fines transferred to MAIF to \$3.0 million beginning in fiscal 2005. For fiscal 2006 and beyond, the amount would be adjusted to reflect change in the CPI.

MAIF should comment on the recent transfer of funds from the Uninsured Division to the general fund and whether the upcoming \$3,000,000 transfer will negatively impact business operations.

Exhibit 6

Uninsured Division
Maryland Automobile Insurance Fund
Calendar 2001 through 2003

	CY 2001 <u>Actual</u>	As of 11/30/2002 <u>Actual*</u>	CY 2003 <u>Estimated**</u>
MVA Fines	\$0	\$2,000,000	\$2,060,000
Collections N&J	1,568,909	1,338,279	1,500,000
Investment Income	1,781,097	1,474,070	570,000 ***
Income	\$3,350,006	\$4,812,349	\$4,130,000
Claims Incurred	\$936,016	\$1,558,531	\$1,751,000
Claims Expenses Incurred	914,640	882,225	927,000
Collection Expenses	438,686	361,692	416,000
Administrative Expenses	1,218,145	1,004,864	1,130,000
Expenditures	\$3,507,487	\$3,807,312	\$4,224,000
Net Gain	-\$157,481	\$1,005,037	-\$94,000
Beginning Surplus	\$24,983,564	\$25,563,041	\$6,137,110
Net Income	-157,481	1,005,037	-94,000
Unrealized Gain (Losses)	736,958	-430,968	
Transfer to State		-20,000,000	
Ending Surplus	\$25,563,041	\$6,137,110	\$6,043,110

* MAIF is on a calendar year basis for its financial statements in accordance with State regulations for Insurance Companies. December results are not yet available, so 2002 financial results are shown as of November 30, 2002. Year-end adjustments and Reserve changes may significantly change the results. All 2002 numbers are subject to adjustment.

** Estimated 2003 Statutory Results as shown above do not include any anticipated capital gains resulting from the sale of invested assets, or changes in Unrealized Gains or Losses to Surplus.

*** The decline in investment income is due to the fact that the state transferred \$20 million from the Uninsured Division surplus to the general fund in late June, 2002.

Source: Maryland Automobile Insurance Fund

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Exhibit 7 indicates that there has not been a dramatic change in the population distribution of high risk drivers. Although total policies have witnessed a dramatic rise from calendar 2000 through 2002, the distribution has remained very similar. Inner Prince George's County consistently has the highest percentage of active vehicles with MAIF policies.

Exhibit 7

**Active Policies – Active Vehicle Analysis
Maryland Automobile Insurance Fund
Calendar 1999 through 2002**

<u>Territory</u>	<u>1999</u>	<u>Dist %</u>	<u>2000</u>	<u>Dist %</u>	<u>2001</u>	<u>Dist %</u>	<u>2002</u>	<u>Dist %</u>
Baltimore City	6,428	11.1%	6,617	10.8%	10,575	10.3%	12,797	10.1%
Inner Baltimore County	3,221	5.6%	2,960	4.8%	6,359	6.2%	8,398	6.6%
Outer Montgomery	2,395	4.1%	2,540	4.2%	4,279	4.2%	5,584	4.4%
Outer Prince George's County	4,535	7.8%	4,356	7.1%	7,101	6.9%	8,992	7.1%
Outer Baltimore County	1,099	1.9%	1,672	2.7%	3,699	3.6%	4,923	3.9%
Inner Montgomery County	2,993	5.2%	2,851	4.7%	5,117	5.0%	6,524	5.2%
Inner Prince George's County	13,373	23.1%	14,240	23.3%	21,621	21.1%	25,343	20.0%
Eastern Shore	2,449	4.2%	2,642	4.3%	4,594	4.5%	5,798	4.6%
Rest of State	21,473	37.0%	23,221	38.0%	39,190	38.2%	48,223	38.1%
Total Policies	57,966	100.0%	61,099	100.0%	102,535	100.0%	126,582	100.0%

Source: Maryland Automobile Insurance Fund

Recommended Actions

1. Nonbudgeted.

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Appendix 1

**Object/Fund Difference Report
Maryland Automobile Insurance Fund**

<u>Object/Fund</u>	<u>CY 2002 Actual</u>	<u>CY 2003 Estimated</u>	<u>CY 02 - CY 03 Amount Change</u>	<u>Percent Change</u>
Positions				
01 Regular	543.00	573.00	30.00	5.52%
02 Contractual	2.50	2.50	0.00	0%
Total Positions	545.50	575.50	30.00	5.52%
Objects				
01 Salaries and Wages	\$ 27,115,872	\$ 31,775,366	\$4,659,494	17.18%
02 Technical & Spec Fees	11,079,810	14,366,737	\$3,286,927	29.67%
03 Communication	1,901,618	2,236,153	\$334,535	17.59%
04 Travel	115,863	131,052	\$15,189	13.11%
06 Fuel & Utilities	294,086	306,916	\$12,830	4.36%
07 Motor Vehicles	371,298	279,636	-\$91,662	-24.69%
08 Contractual Services	2,014,766	2,316,219	\$301,453	14.96%
09 Supplies & Materials	817,974	870,593	\$52,619	6.43%
10 Equip - Replacement	22,843	69,411	\$46,568	203.86%
11 Equip - Additional	819,756	677,611	-\$142,145	-17.34%
13 Fixed Charges	479,020	867,570	\$388,550	81.11%
14 Land & Structures	0	500	\$500	
Total Objects	\$ 45,032,906	\$ 53,897,764	\$ 8,864,858	19.69%
Funds				
07 Nonbudgeted Fund	\$ 45,032,906	\$ 53,897,764	\$ 8,864,858	19.69%
Total Funds	\$ 45,032,906	\$ 53,897,764	\$ 8,864,858	19.69%

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Fiscal Summary					
Maryland Automobile Insurance Fund					
<u>Unit/Program</u>	<u>CY 2002</u> <u>Actual</u>	<u>CY 2003</u> <u>Estimated</u>	<u>CY 02 - CY 03</u> <u>Amount Change</u>	<u>FY03 - FY04</u> <u>% Change</u>	
42 Insured Division	\$ 43,638,156	\$ 52,486,663	\$8,848,507	20.28%	
47 Uninsured Division	1,394,750	1,411,101	\$16,351	1.17%	
Total Expenditures	\$ 45,032,906	\$ 53,897,764	\$8,864,858	19.69%	
Nonbudgeted Fund	\$ 45,032,906	\$ 53,897,764	\$8,864,858	19.69%	
Total Appropriations	\$ 45,032,906	\$ 53,897,764	\$8,864,858	19.69%	