

D70J00
Maryland Automobile Insurance Fund

Operating Budget Data

(\$ in Thousands)

	CY 08 Actual	CY 09 Budgeted	CY 09 Actual*	CY 10 Budgeted	CY 09-10 \$ Change	CY 09-10 % Change
Insured Division	\$47,803	\$51,591	\$46,121	\$45,274	-\$846	-1.8%
Uninsured Division	1,803	1,833	2,565	2,469	-\$96	-3.7%
Nonbudgeted Expenditures	\$49,606	\$53,425	\$48,686	\$47,744	-\$942	-1.9%

* 2009 Actuals are actuals through September 30, 2009, but estimates from October 1, 2009, through December 31, 2009.

- The calendar 2010 budget for the Maryland Automobile Insurance Fund (MAIF) decreases by \$942,230, or 1.9%, compared to calendar 2009. The majority of this decrease occurs in the Insured Division, which decreases by \$846,499.
- The major changes in the calendar 2010 budget occur as a result of a reduction in the number of personnel, the elimination of employee bonuses, and computer equipment and contracts.

Personnel Data

	CY 08 <u>Actual*</u>	CY 09 <u>Budgeted</u>	CY 09 <u>Actual**</u>	CY 10 <u>Budgeted</u>	CY 09-10 <u>Change</u>
Regular Positions	429.30	460.90	419.90	398.90	-21.00
Contractual FTEs	<u>3.16</u>	<u>3.58</u>	<u>1.60</u>	<u>1.60</u>	<u>0.00</u>
Total Personnel	432.46	464.48	421.50	400.50	-21.00

*2008 actual provided by the Maryland Automobile Insurance Fund.

**2009 Actual data are actuals through September 30, 2009, but are estimates from October 1, 2009, through December 31, 2009.

- MAIF anticipates reducing its regular positions by 21 in calendar 2010 to account for the declining number of policies.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Claims Outstanding Increase in the Uninsured Division: After experiencing decreases in the number of claims reported in recent years, the number of claims received increased by approximately 10.0% in calendar 2009. Despite this increase, the number of claims assigned was relatively stable in calendar 2009. Even with stable numbers of claims assigned, the number of claims outstanding increased by 12.8%.

Number of Policies in the Insured Division Continue to Decrease in Calendar 2009: The trend of declining gross and net written policies continued in calendar 2009. MAIF anticipates this trend will ease in calendar 2010.

Claims Activity Increases Slightly in the Insured Division in Calendar 2009: Despite a decrease in policies and reported accidents, the number of claims reported increased slightly, less than 1.0%, in calendar 2009. The increase in claims reported has translated into a modest increase of 5.3% in the number of claims outstanding.

Issues

Report on the Reasonableness of the Surplus of the Insured Division: The 2009 *Joint Chairmen's Report* requested that the Maryland Insurance Administration (MIA) provide a copy of the annual report on the reasonableness of the surplus of the Insured Division concurrent with the submission to the Presiding Officers of the General Assembly and the Chair and Vice Chair of the Senate Finance and House Economic Matters committees and annually thereafter. This report was submitted to the budget committees in July 2009. MIA determined that the surplus of the Insured Division was not excessive.

Recommended Actions

1. Adopt narrative requesting the submission of the annual report on the Maryland Automobile Insurance Fund surplus.
2. Adopt narrative requesting information on strategic consulting expenditures.

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Operating Budget Analysis

Program Description

The Maryland Automobile Insurance Fund (MAIF) is an independent, nonbudgeted, State agency. MAIF operates on a calendar year basis. MAIF has two key responsibilities.

The first responsibility of MAIF is to provide automobile insurance policies for those residents of Maryland whose applications have been declined by private insurers. This is referred to as the Insured Division. The Insured Division, like other automobile insurance companies, handles claims for policyholders. In addition, MAIF works to minimize the subsidizing of these activities by Maryland's commercially insured motorists. The Insured Division is funded through premiums, investment income, and when necessary, a surcharge on premiums statewide. MAIF is required to assess a surcharge on the Maryland automobile insurance industry whenever (1) the surplus of the Insured Division falls below the assessment threshold of 25% of the average net direct written premiums for the previous three years; and (2) there is an operating loss.

The second responsibility of MAIF is to administer and pay 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. This function of MAIF is referred to as the Uninsured Division. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, MAIF receives income from investments and uninsured motorist fines.

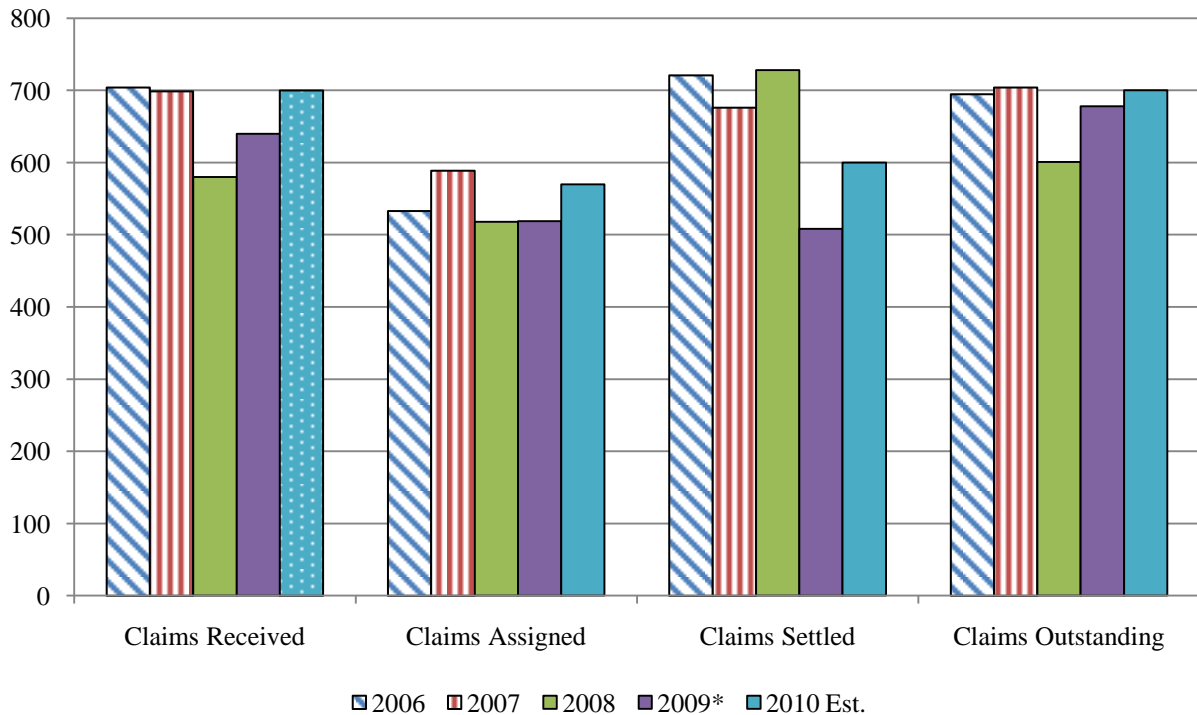
MAIF's three key goals are:

- to offer insurance to all eligible citizens of the State who are unable to obtain private automobile insurance;
- to handle claims of the policyholders and claimants in a manner that is fair, expedient, and professional; and
- to provide services efficiently to minimize the subsidy from the State's insured motorists.

Performance Analysis: Managing for Results

As shown in **Exhibit 1**, after decreasing from calendar 2006 to 2008, the number of claims received in the Uninsured Division increased in calendar 2009 by 10.3% to 640. Even at this level, the number claims reported remained below the calendar 2007 level. Despite the increase in claims reported, the number of claims assigned remained relatively stable.

Exhibit 1
Claims and Collection Activity
Uninsured Division
Calendar 2006-2010



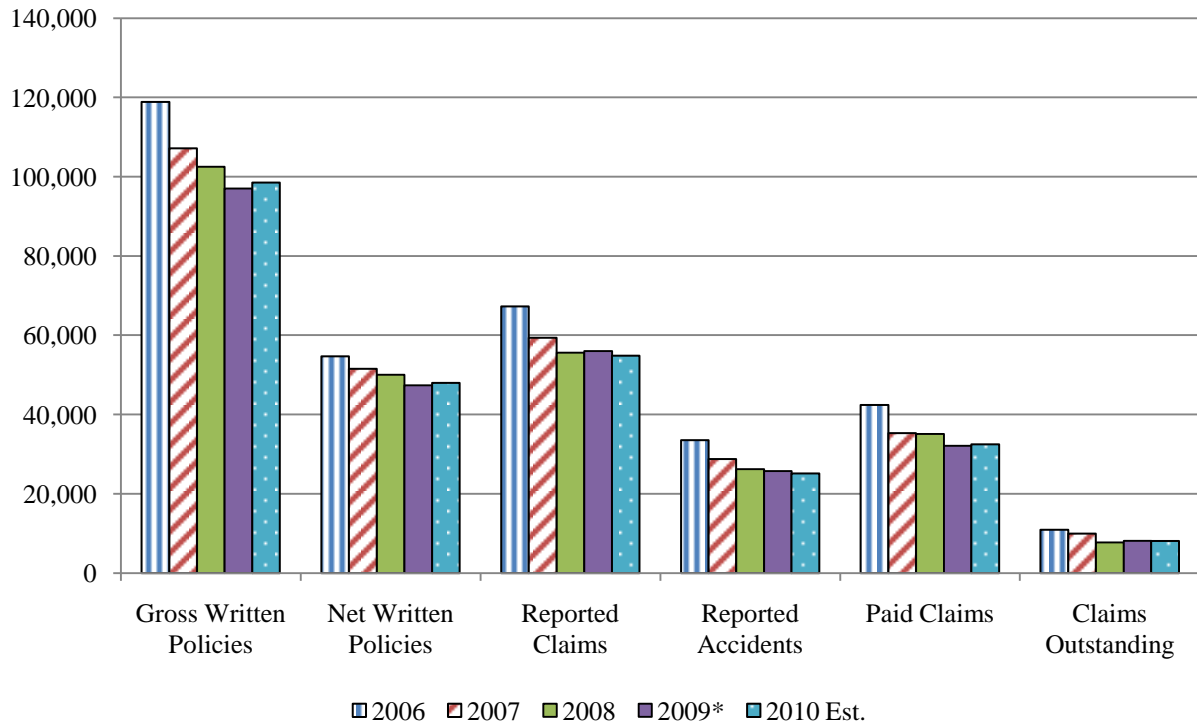
* Year-end adjustments may significantly alter the results. All calendar 2009 numbers are subject to change.

Source: Maryland Automobile Insurance Fund

The number of claims settled decreased by approximately 30.0% in calendar 2009. Consistent with an increase in number of reported claims and decrease in claims settled, the number of outstanding claims increased by 12.8%. MAIF explained that claims from the Uninsured Division must go through the court system to be closed, which impacts the number of claims settled and outstanding claims each year.

Unexpectedly, the number of gross and net written policies of the Insured Division continued to decrease in calendar 2009, as shown in **Exhibit 2**. MAIF’s business is typically counter-cyclical, growing when the private market tightens. Despite the recent economic conditions, which one might expect would lead to increases in the number of policies written at MAIF, the number of gross and net written policies decreased by 5.3% in calendar 2009. **MAIF should comment on the factors that have led to the continued decrease in the number of policies of MAIF despite the economic conditions.**

Exhibit 2
Policy and Claim Activity
Insured Division
Calendar 2006-2010



* Year-end adjustments may significantly alter the results. All calendar 2009 numbers are subject to change.

Source: Maryland Automobile Insurance Fund

As also shown, the number of accidents reported and paid claims continued to decrease in calendar 2009. However, the number of reported claims increased slightly, 0.8%, and the number of claims outstanding increased by 5.3% in calendar 2009. MAIF indicates that the number of reported claims has increased as a result of the addition of towing and rental services, and the increased number of claims outstanding reflects the increased number of reported claims.

Calendar 2010 Projected Budget

MAIF, a nonbudgeted fund agency, submits its budget to the General Assembly for informational purposes only. As shown in **Exhibit 3**, MAIF's calendar 2010 budget is expected to decrease by \$942,230, or 1.9%, compared to calendar 2009. The majority of this decrease occurs in the Insured Division, which decreases by \$846,399, or 1.8%. The Uninsured Division decreases by \$95,831, or 3.7%.

Impact of Cost Containment

Although MAIF is a nonbudgeted agency, MAIF is participating in the fiscal 2010 furlough plan. MAIF anticipates the fiscal 2010 furlough plan will result in salary reductions of approximately \$792,000.

MAIF indicates, however, that the furlough plan is expected to increase other costs of MAIF including claims costs, storage fees, and attorney's fees. In addition, MAIF anticipates the furlough plan could result in slower collections. As a result of the additional costs and slower collections, MAIF anticipates the furlough plan will cost MAIF approximately \$1.2 million.

MAIF has built the estimates from the third and fourth quarter of the fiscal 2010 furlough plan into the calendar 2010 projected budget. MAIF notes that the calendar 2009 actual expenditures will reflect the impact of the furlough plan from the first and second quarter of fiscal 2010 and the fiscal 2009 furlough plan.

Although the details of the fiscal 2011 furlough plan are not available at this time, similar impacts on MAIF may be expected. The impact of the first two quarters of the furlough plan is not yet reflected in the calendar 2010 budget as a result of timing. However, it would be expected that similar to previous furlough plans, MAIF's actual expenditures will be reduced to reflect the furlough plan.

Exhibit 3
Proposed Budget
Maryland Automobile Insurance Fund
(\$ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
2009 Actual	\$48,686	\$48,686
2010 Proposed Budget	47,744	47,744
Amount Change	-\$942	-\$942
Percent Change	-1.9%	-1.9%

Where It Goes:

Personnel Expenses

Employee retirement	\$157
Deferred compensation	-25
Health insurance	-29
Overtime.....	-61
Social Security contributions	-71
Temporary employees due to the completion of projects and hiring of some temporary employees into regular positions	-215
Regular earnings including a decrease of 21 positions	-937
Other fringe benefit adjustments	28

Other Changes

Planned upgrades to budget software and Windows.....	695
Contracts for servers, printers, and storage devices	583
Planned upgrades to the claim system and voice integration system.....	328
Premium tax due to anticipated increase in direct written premiums.....	290
Expenses associated with a five-year audit by Maryland Insurance Administration	130
Office supplies to reflect recent experience and inflation	106
Investment service charges based on the market value of the portfolio in Insured Division partially offset by Uninsured Division.....	92
Legal consulting fees and investigative reports.....	52
Building maintenance and snow removal expenses	52
Motor vehicle operations primarily due to costs associated with insurance and gas and oil	39
Advertising for vacant positions.....	35
Reinsurance expenses.....	31
Insurance Service Office Internet charges.....	25
Office equipment to reflect decreased need and calendar 2009 purchases related to Laurel House Counsel office	-73
Decrease in rent associated with the closure of some damage assessment centers to contain costs.....	-78

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Where It Goes:

Consultant services to contain costs	-80
Training expenses.....	-89
Legislative relations and outreach activities to contain costs.....	-191
Elimination of the pre-inspection program.....	-685
Employee bonuses due to prohibition on bonuses in Section 14 of BRFA of 2009 and Section 31 of BRFA of 2010	-1,068
Other	20
Total	-\$942

BRFA: Budget Reconciliation and Financing Act

Note: Numbers may not sum to total due to rounding. 2009 actual is actual data through September 30, 2009, and estimates from October 1 through December 31. The Maryland Automobile Insurance Fund operates on a calendar-year basis.

Personnel

Personnel expenditures of MAIF decrease by approximately \$1.2 million in the calendar 2010 proposed budget. The regular earnings of MAIF decrease by \$937,388, primarily driven by a decrease of 21 positions. Due to the declining numbers of policies written in recent years, MAIF does not anticipate needing as many employees in calendar 2010. The decrease of 21 positions also impacts certain other fringe benefit expenditures.

MAIF indicates it expects to use fewer temporary employees in calendar 2010, resulting in a decrease of \$215,429. These temporary employees were used mostly in the area of information technology in calendar 2009. MAIF noted that the projects these personnel were working on have been completed and that some of the temporary employees have been hired into regular positions.

Consistent with actions of the Budget Reconciliation and Financing Act (BRFA) of 2009 and BRFA of 2010, no funding for employee cost-of-living adjustments or merit increases is included in the calendar 2010 proposed budget.

Also consistent with State budget actions in fiscal 2010 and 2011, no funding is provided in the calendar 2010 budget for deferred compensation, a decrease of \$25,101.

Audit Findings

The Office of Legislative Audits (OLA) released the fiscal compliance audit for MAIF in November 2009. The audit contained two findings related to MAIF’s budget. Finding One of this audit stated that, during calendar 2008, changes were made to critical provisions of the employee bonus program, without which the majority of the \$1.4 million in bonuses paid for that year would not have been paid.

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Finding Two of the OLA audit states that certain expenditures (strategic consulting, marketing, public relations, advertising, lobbying services, and producer appreciation events) should be disclosed to the budget committees as part of the annual budget submission.

MAIF indicates that in calendar 2010 it has budgeted:

- \$39,200 for public relations, an increase of \$11,200;
- \$50,400 for advertising and legal publications, an increase of \$35,412; and
- \$26,900 for lobbying services, a decrease of \$47,075.

MAIF explains that no funds were budgeted in calendar 2009 or 2010 for marketing or producer appreciation events.

MAIF indicates that it has more than 140 contracts considered to be strategic consulting valued in excess of \$10 million in calendar 2010, although not all of these contracts are included in MAIF's budget. Specific detail was not available about all of these expenditures because of the number of contracts involved, but some examples provided by MAIF were investment advisors, reinsurance expenses, business continuity and disaster recovery, services to assist in underwriting, and claims adjustment. The recent audit indicated that in calendar 2008 and 2009 (through May 31), \$96,000 was spent on these services. Based on the very different amounts of strategic consulting services provided, it is clear that OLA and MAIF have interpreted this term differently. **The Department of Legislative Services (DLS) recommends that the committees adopt narrative requesting that MAIF and OLA work together to develop a uniform understanding of strategic consulting services and then submit a report providing that definition and detail on MAIF's calendar 2009 and 2010 strategic consulting expenditures.**

MAIF Uninsured Division Financial Statement

Exhibit 4 shows the financial statement for the Uninsured Division of MAIF. MAIF operates on a calendar year basis, in accordance with State regulations for insurance companies. The 2009 information is actual data as of November 30, 2009, and does not include December estimates. Comparisons between calendar years may be over or understated because information for December is not included. For discussion purposes, DLS has estimated the full year revenues and expenditures for 2009.

Exhibit 4
Maryland Automobile Insurance Fund
Uninsured Division

	<u>2008</u>	<u>Actual as of</u> <u>11/30/2009*</u>	<u>Estimated</u> <u>2010</u>
MVA Fines	\$2,578,546	\$2,645,588	\$2,725,000
Collections	1,201,326	901,978	1,000,000
Investment Income	629,296	687,751	550,000
Total Income	\$4,409,168	\$4,235,317	\$4,275,000
Claims Incurred	\$1,114,671	\$794,516	\$878,400
Claims Expenses Incurred	968,079	686,077	1,117,000
Collection Expenses	533,298	445,088	523,000
Administrative Expenses	665,406	1,534,927	1,254,000
Total Expenditures	\$3,281,454	\$3,460,608	\$3,772,400
Net Gain	\$1,127,714	\$774,709	\$502,600
Beginning Surplus	\$8,851,534	\$9,765,850	\$3,645,170
Net Income	1,127,714	774,709	502,600
Unrealized Gain (Losses)	-213,398	104,611	0
Extraordinary Transfer		-7,000,000	
Ending Surplus	\$9,765,850	\$3,645,170	\$4,147,770

MVA: Motor Vehicle Administration

* The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. December results are not yet available, so 2009 financial results are shown as of November 30, 2009. Year-end adjustments and reserve changes may significantly change the results.

Source: Maryland Automobile Insurance Fund

MAIF anticipates a total income of \$4.3 million in calendar 2010, which is approximately \$345,000 lower than 2009 if certain income categories are annualized. The majority of MAIF's income is derived from the Motor Vehicle Administration uninsured motorist fine, approximately \$2.7 million in calendar 2010. This fee has been indexed annually based on the Consumer Price Index – All Urban Consumers – Medical Care since its reinstatement to MAIF in fiscal 2002 at a level of \$2.0 million.

MAIF's collections on notes and judgments decreased by approximately \$300,000 between calendar 2008 and 2009 to \$901,978 but is expected to increase to \$1 million in calendar 2010. However, calendar 2009 and 2010 are relatively stable if the calendar 2009 collections are annualized. MAIF indicates that the decrease between calendar 2008 and 2009 resulted from the

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economic downturn and having fewer employees dedicated to this task. MAIF has filled some of the positions doing this work stabilizing collections.

The calendar 2010 total expenditures are estimated to be approximately \$3.8 million and are relatively stable once the calendar 2009 expenditures are annualized. Despite the overall stability in expenditures, significant variations exist in specific types of expenditures.

Claims expenses increase substantially, even if calendar 2009 figures are annualized, by nearly \$370,000. This increase results from a calendar 2009 review of the allocation of time spent by Insured Division employees working on behalf of the Uninsured Division. In addition, MAIF explained that the changes in collection expenses reflect the fewer positions dedicated to this task in calendar 2009.

Of note, while administrative expenses decrease between calendar 2009 and 2010, the calendar 2010 expenditures are nearly double that of calendar 2008. The cost of efforts by MAIF to educate drivers about the penalties associated with driving without insurance has been allocated to the Uninsured Division and, as a result, increased the administrative expenses.

MAIF anticipates a net gain of \$502,600 in calendar 2010, which is a smaller net gain than calendar 2009 by \$272,109. The smaller net income results from anticipated increases in expenditures with relatively stable income.

The surplus of the Uninsured Division decreased by approximately \$6.1 million between calendar 2008 and 2009, despite a net income (\$774,709) and unrealized gain (\$104,611), as a result of the transfer of \$7.0 million to the general fund authorized in the BRFA of 2009. MAIF anticipates the ending calendar 2010 surplus will be \$4.1 million.

MAIF Assessment Threshold

MAIF is required to assess a surcharge on the Maryland automobile insurance industry which may be passed on to policyholders of those companies after two triggers occur. First, the surplus of the Insured Division must be below 25% of the three-year average of the net direct written premiums. Second, it must experience an operating loss.

The assessment threshold varies from year to year as a result of changes in the three-year average of net direct written premiums.

Exhibit 5 shows the recent and estimated assessment thresholds. The net direct written premium continued the trend of decreases in calendar 2009, leading to a lower three-year average and lower assessment threshold. In calendar 2010, MAIF anticipates the direct written premium will increase as a result of a 6.5% rate increase in August 2009 and an anticipated rate increase in calendar 2010. Despite this increase, the three-year average is expected to decrease by approximately \$1.1 million, resulting in a \$200,000 decrease in the assessment threshold. Over time, the three-year average and assessment threshold may be expected to increase as a result of the increased direct written premium.

Exhibit 5
Maryland Automobile Insurance Fund
Assessment Threshold
Calendar 2008-2010

	<u>Direct Written Premium</u>	<u>Three-year Average</u>	<u>Assessment Threshold</u>
2006	\$153,127,206		
2007	128,672,269		
2008	116,636,349	\$132,811,941	\$33,202,985
Est. 2009	109,000,000	118,102,873	29,500,000
Est. 2010	125,500,000	117,045,450	29,300,000

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. December results are not yet available, so 2009 financial results are shown as of November 30, 2009. Year-end adjustments and reserve changes may significantly change the results.

Source: Maryland Automobile Insurance Fund

MAIF Insured Division Financial Statement

Exhibit 6 provides the financial statement for the Insured Division of MAIF. MAIF operates on a calendar year basis in accordance with State regulations for insurance companies. The 2009 data is preliminary and is subject to change.

In calendar 2010, MAIF anticipates total income will increase by approximately \$7.5 million, to reach approximately \$120.3 million. Earned premium is expected to increase by approximately \$5.1 million. While the number of gross and net written policies is expected to remain relatively stable with slight increases, MAIF indicates the actual calendar 2009 and planned calendar 2010 rates will lead to higher levels of earned premium. In calendar 2010, MAIF anticipates that the markets will stabilize and return MAIF's investment income to approximately the calendar 2008 level.

The total expenditures of MAIF are estimated to decrease in calendar 2010 by approximately \$6.9 million, primarily due to claims incurred. MAIF indicates that a higher number of claims in calendar 2009 led to a higher level of claims and claims expenses incurred. The decrease in calendar 2010 expenditures is consistent with the anticipated decrease in the number of claims and accidents reported.

Due to a higher level of expenditures compared to income, MAIF anticipates a net operating loss of approximately \$22.6 million in calendar 2010. This would be the third consecutive year of net operating losses; however, at this level the calendar 2010 net loss would be smaller than that of calendar 2009.

Exhibit 6
Maryland Automobile Insurance Fund
Insured Division

	<u>2008</u>	<u>2009*</u>	<u>Estimated</u> <u>2010</u>
Earned Premium	\$121,560,987	\$113,138,082	\$118,250,000
Investment Income	2,108,673	-361,078	2,000,000
Other Income	71,231	63,088	63,000
Total Income	\$123,740,891	\$112,840,092	\$120,313,000
Claim Incurred	\$87,555,656	\$91,065,801	\$85,731,000
Claim Expenses Incurred	27,167,089	31,229,511	30,500,000
Other Expenses	29,744,114	27,554,890	26,700,000
Total Expenditures	\$144,466,859	\$149,850,202	\$142,931,000
Net Gain (Loss)	-\$20,725,968	-\$37,010,110	-\$22,618,000
Beginning Surplus	\$184,753,525	\$138,701,648	\$124,491,650
Net Income	-20,725,968	-37,010,110	-22,618,000
Change to Nonadmitted	-25,720,078	22,679,831	0
Release of Overrecoupment	394,169	120,281	0
Ending Surplus	\$138,701,648	\$124,491,650	\$101,873,650
Assessment Threshold	\$33,202,985	\$29,500,000	\$29,300,000
Ratio of Surplus to Assessment Threshold	4.18	4.22	3.48

* The Maryland Automobile Insurance Fund operates on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. 2009 results are preliminary. Year-end adjustments and reserve changes may significantly change the results.

Source: Maryland Automobile Insurance Fund

The financial statement reflects a new line for calendar 2008 and 2009 compared to recent financial statements, release of overrecoupments. MAIF indicates that at the time of the last automobile insurance industry assessment in 1989, some insurance companies collected more from the assessment than anticipated. These funds were transferred to MAIF and held as a credit against a future assessment. MAIF indicates that in calendar 2008 and 2009, it was directed to release the overrecoupments associated with companies that are no longer in business.

MAIF experienced an approximately \$25.7 million negative change to nonadmitted assets in calendar 2008; however, in calendar 2009 MAIF explained that the value of its portfolio largely recovered, resulting in a positive change to nonadmitted assets of approximately \$22.7 million. Because of uncertainty surrounding the market, MAIF chooses not to estimate any change in nonadmitted assets for calendar 2010.

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MAIF anticipates its surplus will continue to deteriorate in calendar 2010, reaching a level of approximately \$101.9 million, approximately \$36.8 million lower than the calendar 2008 actual surplus. At this level of surplus, with an anticipated assessment threshold of approximately \$29.3 million, MAIF's surplus to assessment ratio would decrease to 3.48 from 4.22 in calendar 2009. **MAIF should comment on what actions are being taken to allow the agency to return to a net operating gain and whether the surplus will continue to decline after calendar 2010.**

MAIF Active Vehicle Analysis

Exhibit 7 provides information on the distribution of vehicles insured by MAIF by territory. This distribution may impact the number and value of expected claims. Overall, the distribution in calendar 2009 continues most of the trends from previous calendar years, although generally the rate of change slowed.

Inner and outer Prince George's County continues to have the highest share of the vehicles insured by MAIF, a combined 34.8%. In calendar 2009, the Eastern Shore overtook Baltimore City as the territory with the third highest share. From calendar 2006 to 2009, the Baltimore City share of the vehicles insured by MAIF decreased from 9.1 to 6.8% while the Eastern Shore share increased from 5.4 to 7.1%.

Exhibit 7
Active Vehicle Analysis
Insured Division
Calendar 2006-2010

<u>Territory</u>	<u>2006</u>	<u>Dist. %</u>	<u>2007</u>	<u>Dist. %</u>	<u>2008</u>	<u>Dist. %</u>	<u>2009</u>	<u>Dist. %</u>
Baltimore City	7,673	9.1%	6,096	7.9%	5,111	6.9%	4,777	6.8%
Inner Baltimore County	4,921	5.8%	4,477	5.8%	4,015	5.4%	3,792	5.4%
Outer Montgomery	3,741	4.4%	3,525	4.6%	3,330	4.5%	3,104	4.4%
Outer Prince George's County	7,169	8.5%	6,648	8.6%	6,746	9.1%	6,624	9.4%
Outer Baltimore County	3,326	3.9%	2,775	3.6%	2,376	3.2%	2,143	3.0%
Inner Montgomery County	3,558	4.2%	3,312	4.3%	3,204	4.3%	2,936	4.2%
Inner Prince George's County	18,178	21.5%	18,113	23.4%	18,599	25.0%	17,911	25.4%
Eastern Shore	4,605	5.4%	4,598	5.9%	4,767	6.4%	4,995	7.1%
Rest of the State	31,363	37.1%	27,848	36.0%	26,132	35.2%	24,246	34.4%
Total Vehicles	84,534	100.0%	77,392	100.0%	74,280	100.0%	70,528	100.0%

Source: Maryland Automobile Insurance Fund

Issues

1. Report on the Reasonableness of the Surplus of the Insured Division

The 2008 *Joint Chairmen's Report* (JCR) requested that MAIF and the Maryland Insurance Administration (MIA) submit a report on three issues: (1) identifying options on methods to determine the reasonableness of the surplus of the Insured Division of MAIF; (2) who should be responsible for making the determination; and (3) methods of reducing surplus if it is determined to be excessive. In October 2008, MAIF and MIA submitted a response to this request which outlined a planned formal review process to determine whether MAIF's surplus is excessive. A memorandum of understanding between MIA and MAIF formalized the review process in November 2009.

MIA was to evaluate MAIF's surplus based on the following factors:

- the ratio of the surplus to the assessment trigger;
- the surplus as measured by Risk Based Capital (RBC);
- the ratio of premium to surplus;
- external economic factors;
- trends in the automobile insurance industry both nationally and in Maryland; and
- 24-month financial projections.

The 2009 JCR requested that MIA annually submit to the budget committees the report on the reasonableness of the surplus of the Insured Division of MAIF concurrent with the submission to the Presiding Officers and the Chair and Vice Chair of the Senate Finance and House Economic Matters committees. In July 2009, MIA submitted the first of these reports based on data provided by MAIF in April 2009 for calendar 2008.

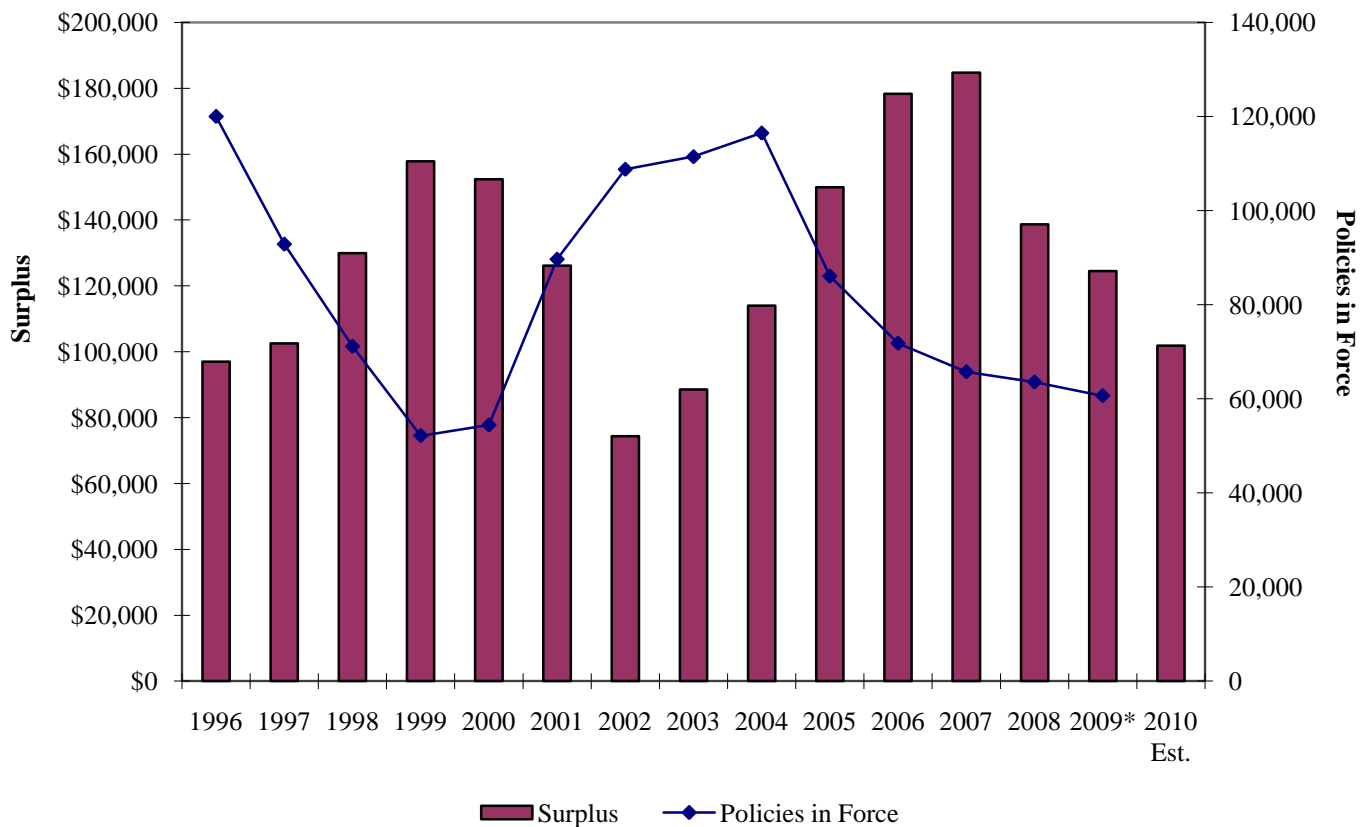
Findings

MIA noted that MAIF's surplus to assessment ratio had decreased to 4.18 in calendar 2008 from 4.66. In addition, MIA noted that the ratio of premium to surplus level was below one to one and was a healthy ratio.

MIA explained, as described in statute, it is the policy of the State to encourage insurance companies to maintain a surplus above the minimum required levels. MAIF's surplus was 849% of the authorized control level under RBC. The RBC level of MAIF was 6th highest compared to the top 10 private automobile insurance companies.

MAIF’s policies in force and surplus tend to move in opposite directions, and both tend to reflect overall changes in the economic conditions, as shown in **Exhibit 8**. However, MIA noted that contrary to the typical pattern, MAIF’s policies have not increased during the recent economic downturn. As shown in Exhibit 8, the policies in force as of December 31 have continued to decline from the recent high in of 116,498 for calendar 2004 to 60,660 in calendar 2009. Despite the continued decline in policies, the report noted that the rate of decrease has slowed; MAIF felt a policy increase could begin to occur, which would be expected to impact the surplus.

Exhibit 8
History of Policies and Surplus
Insured Division
Calendar 1996-2010
(\$ in Thousands)



* Year-end adjustments and reserve changes may significantly alter the results. All 2009 numbers are subject to adjustment. Policies in force are policies in effect on December 31 of each year.

Source: Maryland Automobile Insurance Fund; Department of Legislative Services

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MIA explained that while nationally, the property and casualty insurance business remained strong, difficulties have been experienced in terms of net underwriting losses, lower net investment gains, and lower net incomes. The national performance was also impacted by catastrophic losses including those from tropical storms and hurricanes.

MIA indicated it did not have sufficient information to analyze MAIF's projected decrease in surplus in calendar 2009 and again in calendar 2010. MIA suggested MAIF present some additional data and explanations in the report it submits to MIA under the memorandum of understanding in the future to allow MIA the ability to analyze the projections including the assumptions used to develop projections and the sensitivity of the projections to the assumptions, a balance sheet, and an income statement.

Conclusion

MIA concluded that based on the information and the current economic situation that the surplus of the Insured Division was not excessive. **DLS recommends MAIF provide the additional information requested by MIA in future reports and that MIA continue to submit the evaluation to the budget committees.**

Recommended Actions

1. Adopt the following narrative:

Annual Report on the Reasonableness of the Surplus of the Insured Division of the Maryland Automobile Insurance Fund: The response to the *2008 Joint Chairmen's Report* (JCR) request by the Maryland Automobile Insurance Fund (MAIF) and the Maryland Insurance Administration (MIA) indicated that MIA will annually produce a report on the determination of the reasonableness of the surplus of the Insured Division of MAIF. The first of these annual reports was submitted on July 16, 2009 to the budget committees in response to the 2009 JCR. The committees request MIA again submit this report to the budget committees concurrent with its submission to the Presiding Officers of the General Assembly and the Chair and Vice Chair of the Senate Finance and House Economic Matters committees.

Information Request	Author	Due Date
Annual report on the reasonableness of the surplus of the Insured Division of MAIF	MIA	Concurrent with submission to the Presiding Officers of the General Assembly and the Chair and Vice Chair of the Senate Finance and House Economic Matters committees

2. Adopt the following narrative:

Strategic Consulting Expenditures: In November 2009, the Office of Legislative Audits (OLA) released a fiscal compliance audit for the Maryland Automobile Insurance Fund (MAIF). Finding Two of this audit stated that certain expenditures should be disclosed to the legislative budget committees as part of the annual budget submission process. These expenditures include strategic consulting, marketing, public relations, advertising, lobbying services, and producer appreciation events. MAIF provided information on the expenditures associated with marketing, public relations, advertising, lobbying services, and producer appreciation events. MAIF indicates that contracts it deems to be strategic consulting have a value over \$10.0 million and consists of more than 140 contracts. However, the audit notes only \$96,000 for these types of expenditures during calendar 2008 and 2009 (through May 31). The committees request that MAIF work with OLA to develop a uniform understanding of strategic consulting expenditures and submit a report containing this definition and detail on MAIF's strategic consulting expenditures in calendar 2009 and 2010. This detail should include the dollar value of the contract budgeted in each calendar year, type of service provided, vendor providing the service, and the Comptroller Object where the activity is budgeted.

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Information Request	Author	Due Date
Strategic consulting expenditures for calendar 2009 and 2010	MAIF	August 1, 2010
Strategic consulting, lobbying, marketing, public relations, advertising, and producer appreciation event expenditures in calendar 2011	MAIF	Concurrent with submission of the calendar 2011 budget

Audit Findings

Audit Period for Last Audit:	December 13, 2005 – March 3, 2009
Issue Date:	November 2009
Number of Findings:	5
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	N/A

- Finding 1:** During calendar 2008, changes were made to critical provisions of MAIF’s employee bonus program, without which the majority of the \$1.4 million in bonuses paid for the year would not have been paid.
- Finding 2:** Disclosure of certain expenditures should be made as part of the annual budget submission to legislative committees.
- Finding 3:** Certain procurement transactions processed by MAIF were not consistent with its *Procurement Procedures Manual*.
- Finding 4:** Documentation sufficient to support expenditures was not always on file, or was not always reviewed by personnel responsible for processing expenditures.
- Finding 5:** Certain payments made to plaintiff attorneys were not reported in accordance with Internal Revenue Service regulations.

*Bold denotes item repeated in full or part from preceding audit report.

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

	<u>Object/Fund</u>	<u>CY 2008 Actual</u>	<u>CY 2009 Projected</u>	<u>CY 2010 Estimated</u>	<u>CY09-CY10 Amount Change</u>	<u>Percent Change</u>
Positions						
01	Regular	429.30	419.9	398.9	-21	-5.0%
02	Contractual	3.16	1.6	1.6	0	0.0%
	Total Positions	432.46	421.5	400.5	-21	-5.0%
Object						
01	Salaries, Wages & Fringe Benefits	\$32,575,151	\$33,493,793	\$32,339,656	-\$1,154,137	-3.4%
02	Tech & Special Fees	\$7,918,973	7,596,004	6,214,275	-\$1,381,729	-18.2%
03	Communications	\$1,768,039	1,450,486	1,468,046	\$17,560	1.2%
04	Travel	\$142,683	142,460	109,089	-\$33,371	-23.4%
06	Fuel & Utilities	\$482,558	381,703	382,600	\$897	0.2%
07	Motor Vehicle Operations & Main	\$448,623	372,312	411,384	\$39,072	10.5%
08	Contractual Services	\$4,403,566	3,987,745	4,900,375	\$912,630	22.9%
09	Supplies & Materials	\$411,475	327,648	446,126	\$118,478	36.2%
10	Equipment Replacement	\$12,831	65,986	13,361	-\$52,625	-79.8%
11	Equipment Additional	\$981,064	396,855	1,070,700	\$673,845	169.8%
13	Fixed Charges	\$441,344	448,562	388,016	-\$60,546	-13.5%
14	Land & Structures	\$19,585	22,304	0	-\$22,304	-100.0%
	Total Objects	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%
Funds						
07	Nonbudgeted Fund	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%
	Total Funds	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%

Note: 2009 Actuals are actual through September 30, 2009 and estimates from October 1, 2009-December 31, 2009.

**Fiscal Summary
Maryland Automobile Insurance Fund**

<u>Program/Unit</u>	<u>CY08 Actual</u>	<u>CY09 Projected</u>	<u>CY10 Estimated</u>	<u>CY09-CY10 Change</u>	<u>%Change</u>
42 Insured Division	\$47,803,068	\$46,120,841	\$45,274,442	-\$846,399	-1.8%
47 Uninsured Division	\$1,802,825	\$2,565,017	\$2,469,186	-\$95,831	-3.7%
Total Expenditures	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%
Nonbudgeted Fund	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%
Total Appropriations	\$49,605,892	\$48,685,858	\$47,743,628	-\$942,230	-1.9%

Note: 2009 Actuals are actual through September 30, 2009 and estimates from October 1, 2009-December 31, 2009.