Sub-Committee Presentation – STAR Commission

Overview

- Created – 1972 (HB 44/Chapter 73) Began insurance operations on January 1, 1973
- Primary Function – Insured Division sells automobile insurance policies to Maryland residents & businesses:
  - Turned down by two private auto insurers
  - Cancelled or non-renewed by one private auto insurer
- Independent & non-budgeted agency
- Insurance operations are not supported by State funds. (Ins. Art. §20-302 "The State may not provide General Fund appropriations to the Fund.")
- Operates and pays insurance claims with funds generated by policyholder premiums & investments (Ins. Art. §20-302 "All operating expenses of the Fund shall be paid from money . . . collected by the Fund.")
- MAIF is not subject to "any law…that effects governmental units" (Ins. Art. §20-201) except: Public Information Act; State Ethics Law; Tort Claims Act; Regulations – Uninsured; Whistleblower Law
- Secondary Function – Administer the Uninsured Division for the State
  - Pays claims to Maryland residents involved in accidents caused by uninsured motorist when no other collectible insurance available
  - Receives a portion of uninsured motorist fines ($4.1 million – 2020) to operate and pay claims.

Evolution of MAIF

Task Force Bill (Ch. 73, 2013):

- Reformed MAIF's Board by imposing staggered 5-year and 2 term limits; expertise (financial and insurance); diversity; 9 Gubernatorial appointments and removal; compensation; appoints Executive Director; and Audit Committee Established;
- Required MAIF Internal Auditor to do annual compliance audits and report to the Board;
- Removed MAIF from Office of Legislative Audits as MAIF was already subject to MIA regulation, Board Audit Committee oversight, Internal and External Auditor's audits;
- Removed MAIF from AG representation and allowed MAIF to employ attorneys;
- MAIF employees no longer subject to SPMS but remain members of the State retirement and health benefits systems;
- MAIF removed from procurement law for real estate;
- MAIF not subject to government agency laws, except the PIA; Open Meetings Act; State Ethics law; Tort Claims Act; and Whistleblower law.

Since the Task Force:

- Removed from Open Meetings Act; prior MIA approval for rates and forms; and regulations, except for the Uninsured Division (Ch. 509, 2017).

MARYLAND
AUTO INSURANCE

Why is Maryland Auto Still a Quasi-State Agency?

Benefits of Being a State Agency

- Tax Exemptions--Premium Tax, Sales Tax, Federal Income Tax
- Insurance Article Exemptions – i.e., Title 27, Subtitle 6
- Covered by the Maryland Tort Claims Act
- Assessment Mechanism in case of Financial Impairment
- Reduced fees for certain motor vehicle records
- Employees are covered by the State Retirement and Health Benefit Systems

Current Statutory Challenges

- Limited to residual business which results in a minimal market share (< 2%)
- Two-Turn Down Rule
- Limited Installment Billing Plan
    - 25% down and up to 6 payments for annual premium less than $3,000
    - 20% down and up to 8 payments for annual premium of $3,000 or more
- Commissions
- Producers
- Depopulation effort
- One line/one state

Reasons to Enter the Private Sector

- MAIF is the only entity of it’s kind in the United States.

- MAIF performs an essentially private function—writing auto insurance in the insurance market place to private citizens.

- MAIF is only able to lower rates for the Underserved Populations of the State by being enabled to grow and spread risk appropriately.
    - Currently very limited growth opportunity due to archaic, strenuous statutes.
    - Consistently losing money in a failing business model.

- As the result of depopulation requirements, MAIF cannot retain policyholders who came to MAIF due to poor credit or driving record but have become better risks while insured by Maryland Auto.

Reasons to Enter Private Sector (continued)

- In the long run, unless premium growth can be achieved, MAIF will have to assess all Maryland drivers to support its operations. Between 1980 and 1990 assessments totaled $131 million. There has not been an assessment since but the potential remains.

- Long term, the State will be gradually relieved of pension & benefit obligation for new hires

- MAIF operates the same as a private insurer, with tremendous oversight and regulation from the Maryland Insurance Administration, unlike other quasi-government agencies with no regulator.

- As a private entity, MAIF could grow its book of business while still fulfilling its mission of remaining the insurer of last resort and the administrator of the Uninsured Division.

Benefits for MD Citizens

- MAIF has provided insurance to hundreds of thousands of Maryland resident who were rejected by the private market.
- Demographics include:
  - 75% between the ages 21 – 50
  - 57% male and 43% female
  - 79.5% of policyholders in the Baltimore or DC Metro Areas
    - 44% Prince George's County
    - 24% Montgomery and Howard Counties
    - 14% Baltimore City and Baltimore County
- MAIF has been a solid employer and a good corporate citizen.
  - Currently employs 190 insurance professionals including underwriters, claims adjusters, regulatory accountants, auditors and attorneys all located in Baltimore City.

IWIF/Chesapeake Conversion

IWIF, a State agency that was very similar to MAIF, was successfully converted by the Legislature to Chesapeake Employers Insurance Company, a private corporation, in 2013. After the conversion:

- All of IWIF's policies, claims, assets and liabilities were transferred by operation of law to Chesapeake. IWIF was no longer an insurer.
- Chesapeake, like IWIF, is permitted to write competitive business and is not subject to two turn-downs or other declinations.
- Chesapeake was required to continue to be the insurer of last resort in place of IWIF.
- IWIF was barred from hiring new employees into the State system, new hires are through the not-for-profit insurer. Those hired prior to the conversion were "grandfathered" and allowed to remain in the State system.
- Employees in the State system can work on Chesapeake business through inter-company agreements.
- Chesapeake is a fully private, regulated insurer that is subject to all the taxes, fees, statutes and regulations that apply to any other insurer authorized to do business in the State.

Other Non-Stock, Non-Profit Insurers

	Chesapeake Employers Insurance Art. §24-301	CareFirst Insurance Art. §12-101	Medical Mutual Insurance Art. §24-201
Private Corporation	Yes	Yes	Yes
Organized Under Maryland Law	Yes	Yes	Yes
Type of Insurer	Workers Compensation	Health	Medical Malpractice
Non-Profit	Yes	Yes	Mutual
Non-Stock	Yes	Yes	Yes
Regulated by MIA	Yes	Yes	Yes
Receive State Funds	No	No	No
State Entity	No	No	No

Conversion of Maryland Auto

To convert MAIF in a fashion similar to IWIF/Chesapeake would require:

1. Legislation to change MAIF's status from a State entity to a private corporation. Using Chesapeake and CareFirst as models, the corporation would be non-stock, non-profit, chartered under State law, and MAIF would be a fully regulated private insurer.
2. The legislation would require MAIF (like Chesapeake) to continue to be the insurer of last resort.
3. MAIF would also continue to administer the Uninsured Division, on behalf of the State and continue to pay claims to eligible Maryland residents injured by uninsured motorists with no other source of an automobile insurance recovery.
4. The legislation would delete the various limitations on MAIF's insurance operations and the assessment mechanism. MAIF would be a private insurer, fully regulated by the MIA, and would operate as any other insurer without any MAIF specific restrictions, e.g. restricted installment payment plans

Conversion of Maryland Auto (continued)

5. MAIF would prospectively withdraw from the State retirement and health benefit systems. Current employees could continue to be covered as employees of the State funded Uninsured Division (method similar to IWIF/Chesapeake).
6. IWIF was required to pay a withdrawal liability contribution under SPP Art. §21-307. The General Assembly could opt not to include a similar requirement in MAIF conversion legislation.
7. IWIF was required to pay a sum ($50 million) representing the fair value of the benefits received by IWIF from the State over the years. The principal benefit was the 90+ years of premium tax exemption, even on the premiums earned on non-residual, competitive business. This exemption helped IWIF amass a sizeable surplus.
8. Since MAIF did pay the premium tax for almost all of its existence and has never wrote any non-residual business, there would be no reason for the General Assembly to impose a similar buy-out on MAIF.