



**Report on Maryland Automobile Insurance Fund's  
Implementation of its  
Fund Producers Commission Structure**

Submitted Pursuant to Senate Bill 1006/Chapter 336, 2012

October 1, 2014

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## **I. Executive Summary**

During the 2012 legislative session, the General Assembly modernized the commission structure used by the Maryland Automobile Insurance Fund (“MAIF”) to compensate Fund producers. The changes moved MAIF commissions from a fixed “10% of the premium” to a variable rate determined by the Fund of “not less than 10% and not to exceed 15%” of total premium. This change, broadly supported by the Assembly, allowed MAIF to enact a new commission plan incentivizing and compensating Fund producers at a higher rate in return for increasing efficiencies at MAIF and assisting in the important public policy need of keeping individuals insured.

As part of the legislation, and in uncodified language, MAIF was required to submit a report detailing whether and how the revised commission structure has:

- (i) incentivized fund producers to use advanced electronic technology in issuing and administering Fund policies, including the number of fund producers using the advanced electronic technology since the inception of the commission payment structure;
- (ii) incentivized fund producers to devote additional resources for retaining current policyholders, reaching out to policyholders who had canceled midterm or did not rewrite, and marketing to uninsured motorists;
- (iii) resulted in a savings in administrative costs for the Fund, including the functions and services performed by fund producers intended to achieve the savings; and
- (iv) resulted in fewer uninsured motorists in the State, including the functions and services performed by fund producers intended to reduce the number of uninsured motorists, the number of uninsured motorists who obtained insurance from the Fund since the inception of the commission payment structure, and any efforts by the Fund to identify uninsured motorists.

As detailed in the pages that follow, the variable commission plan was a success. Use of the MAIF e-policy application system soared. A long downward trend resulting in midterm cancellations was abated. These two aspects of the revised structure generated substantial administrative savings to the Fund, as well as increased convenience to the public in the form of more accurate quotes for a MAIF policy. Even in the important public policy area involving uninsured motorists, MAIF’s revised commission structure was a success. While this area is predominately impacted by the overall economy, and presents a continued issue for improvement, the increased commission for fully paid policies produced dividends. MAIF looks forward to working with the Assembly on this issue as part of the “Task Force to Study Methods to Reduce the Rate of Uninsured Drivers”.

This report details the commission legislative history, outlines MAIF’s revised commission structure, and measures and details its success. It demonstrates how commission

payments influence Fund producer conduct improving results at MAIF while compensating those who assist in that effort.

## **II. Commission History**

Unique among insurance carriers in Maryland, the commission rate paid by the Maryland Automobile Insurance Fund (“MAIF”) to Fund producers is set by statute. There is no similar language for any other automobile insurance carrier in the state, nor is there any such statutory language controlling commission paid to producers by state created insurance agencies including the Injured Workers’ Insurance Fund (now Chesapeake Employers Insurance Company), the Med Mutual Insurance Company, or the Legal Mutual Insurance Company. A review of the legislative history of the commission statute (currently codified in Insurance Article Section 20-512) shows that the 2012 reform was among the most significant changes to what was otherwise a slowly evolving statute.

The decision to control by statute of MAIF’s commission structure dates to its 1972 creation. MAIF’s enabling legislation, House Bill 444/Chapter 73, created MAIF’s original commission rate. As then codified in Article 48A, Section 243 B(c), the mandate was that:

*The Fund shall pay a commission, not to exceed 10% of the premiums, to the agent or broker of a policyholder to whom a policy of insurance is issued or renewed by the fund.*

Enshrining this fluid issue into law inevitably resulted in the need for change, as industry and commerce changed. The first change occurred in 1976. House Bill 1822/Chapter 241 changed MAIF’s original commission rate from “not to exceed 10%” to “not to exceed 12%” and left the precise commission rate to be set by the Board of Trustees. As enacted, Article 48 A – Section 243B (c) was amended to read:

*The fund shall pay a commission determined by the Board of Trustees but not to exceed 12 percent of the total policy premiums, to the agent or broker of a policyholder to whom a policy of insurance is issued or renewed by the Fund.*

Thirteen years later this expansion would ebb, and in 1989, House Bill 375/Chapter 4 once again established a flat 10 percent commission rate for private passenger policies. Article 48 A – Section 243B (c) was changed to read:

*(1) Except as otherwise provided in the subsection, the fund shall pay to a qualified producer of a policyholder to whom a policy of insurance is issued by the fund a commission as follows:*

*(i) in the case of a policy of private passenger automobile insurance, at a rate of 10 percent of the total policy premium.*

*(ii) Except as provided in subparagraph (i) of this paragraph, in the case of any automobile insurance policy, at a rate determined by the Fund, not to exceed 10 percent of the total policy premium.*

*(2) The fund may not pay any commission on a fully earned basis.*

This change in percentage, however, was not the main thrust of the 1989 bill. With MAIF's urging, the commission structure was also revised to prohibit MAIF from paying a commission on a "fully earned basis." This seemingly small change was of import to MAIF. It ended the payout practice of "fully earned commission." Under this practice a Fund producer received 100% of the commission at the time of sale, and retained that commission even if the policy cancelled early. This prohibition continues in the current law.

By 2006, efforts to modernize the commission structure were again underway. Legislative proposals in 2006 and 2007 attempted to create a more flexible commission structure. Both of these efforts were rejected by the General Assembly. The 2006 proposal was Departmental legislation (HB248). It sought to provide parity to MAIF with other state insurance entities. The bill essentially took the commission issue out of statute and authorized MAIF to set the commission. This 2006 effort received an unfavorable report, possibly because it did not guarantee a minimum payout level. In 2007, Delegate Krysiak attempted to rectify this failing, and filed legislation in February. While initially referred to Rules and Executive Nominations, her proposal (HB1121) kept the existing 10% floor, but allowed MAIF "as determined by the Executive Director" to pay an unspecified higher commission. While supported by producers, the open ended maximum payment was opposed by other automobile insurance writers, and ultimately withdrawn by the sponsor.

Change finally occurred in 2012 when the percentage of the commission moved from a fixed percentage to a ranged variable basis. Senate Bill 1006/Chapter 336, 2012. The legislation moved MAIF from a flat commission rate of 10% to a variable commission structure ranging between a floor of 10% and a ceiling of 15%. Insurance Article Section 20-512 (a)(1) now provides a commission to Fund producers:

*For private passenger auto insurance issued by the Fund, at a rate determined by the Fund but not less than 10% and not to exceed 15% of the total premium.*

The 2012 legislation, in effect, drew from the lessons of 2006 and 2007, and set both a ceiling and a floor on commission. MAIF and insurance producers writing MAIF's policies testified in support of Senate Bill 1006. There was no opposition at the Senate Finance or House Economic Matters committee hearings, and the proposal received a unanimous favorable report

from both committees. The legislation overwhelmingly passed both the full House and Senate chambers.

The flexibility of a variable commission structure enables MAIF to adjust the commission rate based on its business needs. As part of the legislation, this report was required.

### **III. Variable Commission Plan Implementation – July 1, 2012**

Consistent with the reporting elements called for in the legislation, MAIF developed a variable commission structure initially designed to incentivize producers to utilize the e-policy system, reduce cancellation rates, increase retention, and reduce uninsured motorists on Maryland highways. If effective in these areas, MAIF could then alter the structure as new initiatives moved to the forefront.

The variable commission plan was unveiled in June 2012 to MAIF's producers with an effective date of July 1, 2012. See attached Producer Bulletin. The new plan created three commission tiers, and provided incentives over the 10% minimum commission. It allowed producers to receive:

1. an additional 2% commission on all private passenger policies written using the e-policy system;
2. an additional 2% commission on all paid-in-full policies;
3. an additional 2% commission if the policy stays in force for the entire term.

Total commission on a single policy was capped, pursuant to statute, at 15%. This structure remained essentially unchanged during the study period, and its evaluation is the basis of this report.

### **IV. Reporting Criteria and Results**

Senate Bill 1006, Section 2 required MAIF to report on four enumerated areas on the new developed commission structure (see page 2). For each of the areas, this report details the criteria, explains MAIF's implementation plan, and measures the impact by comparing the one year time period immediately before the bill's implementation (July 1, 2011 to June 30, 2012) to the results during the two year study period (July 1, 2012 to June 30, 2014).

#### **A. Electronic Policy Application Usage**

The first report criteria was on how the new commission structure "incentivized fund producers to use advanced electronic technology in issuing and administering Fund policies, including the number of fund producers using advanced electronic technology since the inception

of the commission payment structure.” In this arena, the structural change to MAIF’s commission payments was an unqualified success.

### **Implementation**

Usage of the e-policy system lowers MAIF’s underwriting costs and reduces the number of inaccurate quotes. Instead of a laborious paper application subject to the failings of individual memory as to elements of a person’s driving record and accident history, the e-policy system instantly creates accurate insurance quotes. MAIF producers using the e-policy system enter all application information electronically; lessening the paper flow at MAIF and saving MAIF underwriters from manually entering all the requested information.

An electronic data base then uses that information to obtain a copy of the driving record from the appropriate state Motor Vehicle Administration, and also queries a separate database to review the applicant’s accident history report. Additionally, the e-policy system enables the producer to accept premium payments via the MAIF installment plan, premium finance company, or credit card, eliminating the need for checks, again creating a reduction in manpower. Finally, under the e-policy system, MAIF producers print and maintain insurance documents in their office saving MAIF printing, postage, and storage costs.

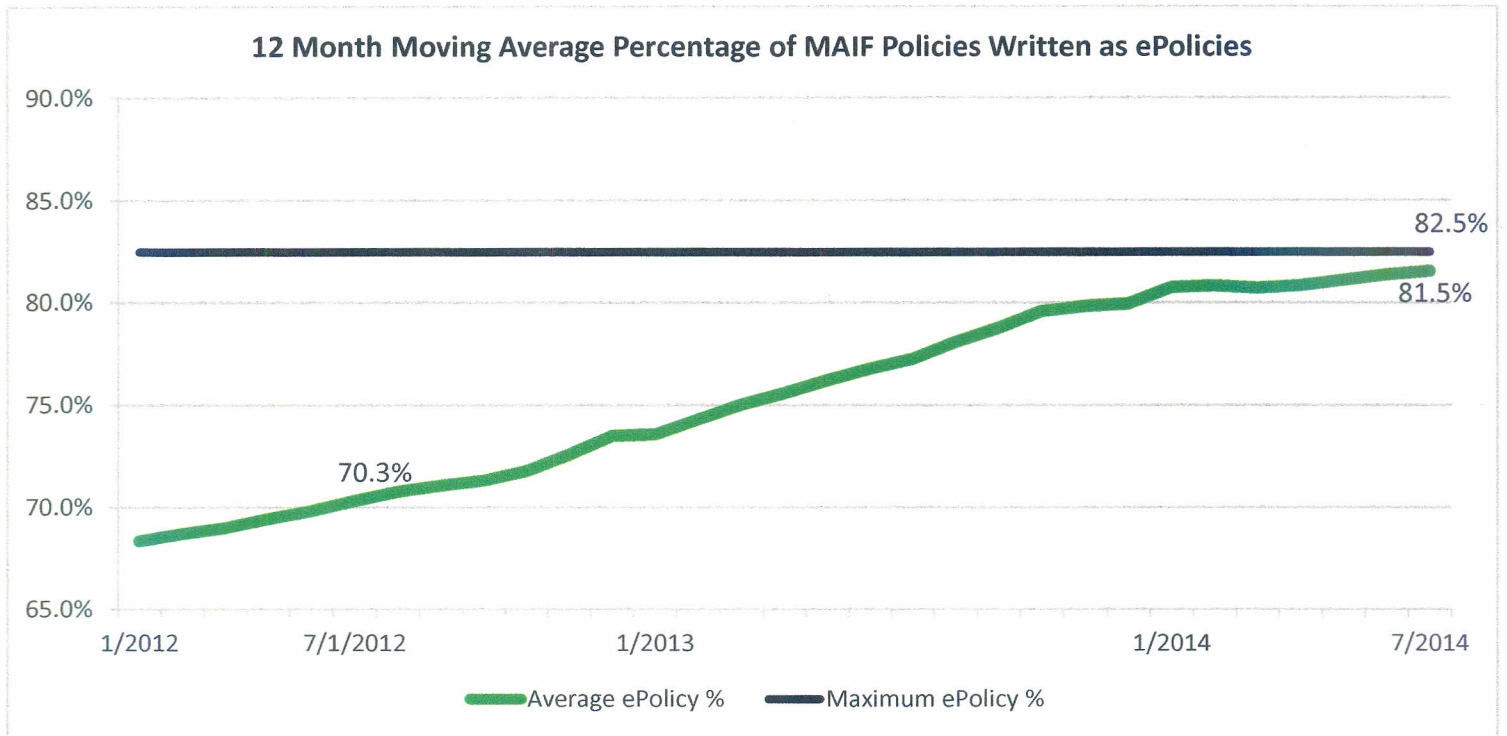
MAIF’s modernized commission structure paid an additional 2% commission above the 10% base to producers utilizing the MAIF e-policy system.

### **Result**

The proportion of private passenger policies that were written using the e-policy system was 70.3% for the year ending June 30, 2012. After the commission change, that percentage increased to 81.5% as of June 30, 2014.

This rate is close to the estimated maximum possible usage of the e-policy system. This maximum usage level accounts for the fact that not all policy applications can be written on this system. For example, applications with out-of-country or certain out-of-state drivers’ licenses require manual processing to confirm eligibility for MAIF. The maximum possible e-policy usage percentage is estimated at 82.5% of MAIF policy applications. As of June 30, 2014 the e-policy proportion was 81.5%. Therefore, expressed as a percentage of possible use, an astoundingly 98.7% of all private passenger policies are now written through the e-policy system.

The chart below shows the change in the e-policy usage:



**B. Keeping Policies in Force**

The second reporting criteria was whether the variable commission structure “incentivized fund producers to devote additional resources for retaining current policyholders, reaching out to policyholders who have cancelled mid-term or did not rewrite, and marketing to uninsured motorists.” The results of these matrixes were also positive.

**Implementation**

Keeping policies in force is a major challenge in the MAIF book of business. Over 50% of MAIF policies cancel before the end of their term, overwhelmingly as a result of missed payments to a premium finance company. Each cancellation generates expenses to the Fund, and likely results in an uninsured motorist.

Data measuring a rolling one year period from 2010 to 2011 showed the magnitude of the cancellation problem. During that period, MAIF wrote over 91,000 policies. Approximately 48,000 policies (53%) cancelled before the policy expiration date. Put another way, only 43,000, or less than half, stayed in force the entire year. Perhaps more surprisingly, of the 48,000 people who had cancelled policies, over 10,000 (or 21%) returned for a new policy before the end of the original policy term. Finally, almost 2,000 (or 4%) came back to MAIF more than two times in the original policy year. Slowing this policy “churn” increases MAIF’s efficiency and protects the public from the problems caused by uninsured drivers.



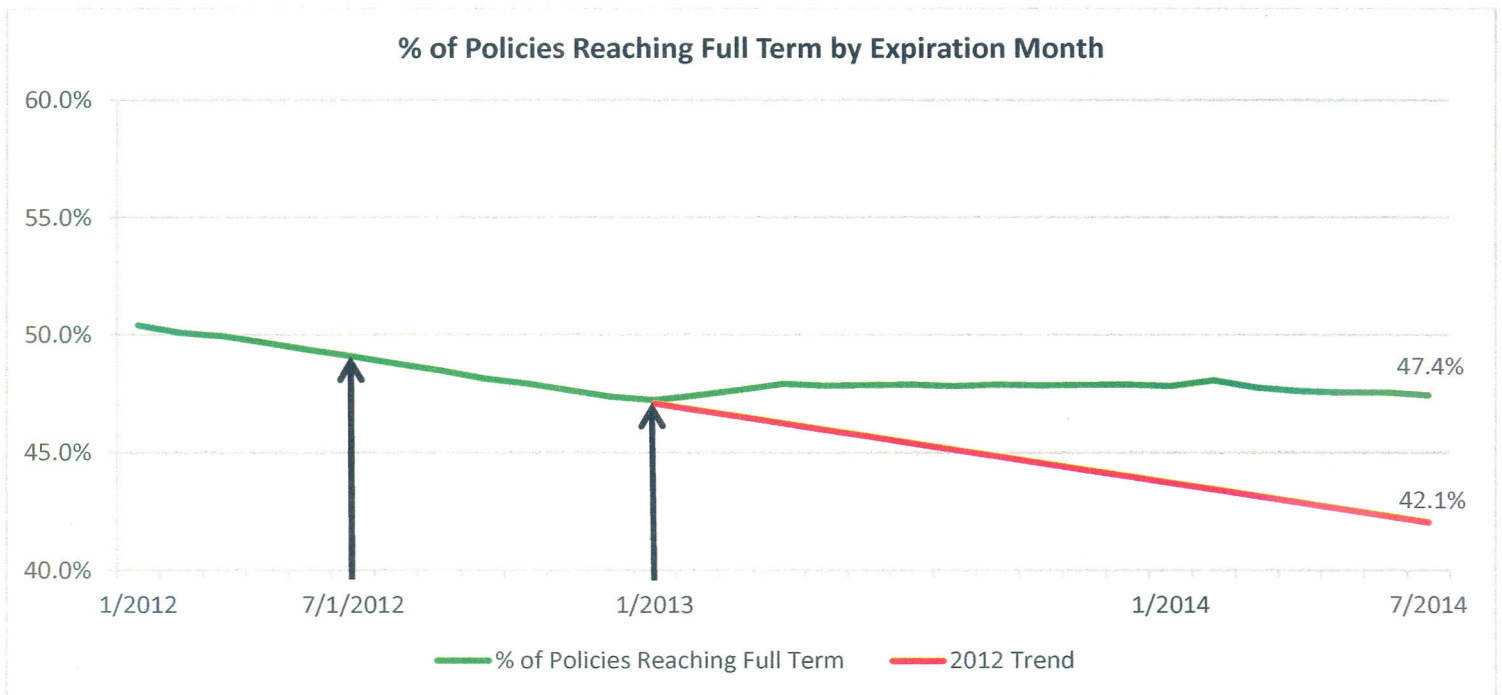
In an effort to incentivize producers to keep policies from cancelling, the variable commission plan provides an additional 2 percent commission above the 10% base for private passenger policies that stay in force for the entire policy term.

### Result

To assess whether the variable commission structure incentivized producers to retain current policy holders, several measures were examined. In general these metrics showed that the revised commission structure slowed the rate of cancellation.

As shown in the chart below, if the cancellations trend of 2011 and 2012 had continued unabated, the percentage of policies reaching full term would have declined to 42.1% by June 30, 2014. The actual percentage of policies reaching full term after the change in the commission structure was 47.4%. The commission changes, therefore, kept over 10% more policies in force than otherwise would have been expected.

At a raw number level, it may appear that the percentage of policies reaching full term continued to decrease even after the variable commission plan was implemented. This, however, reflects the fact that because the legislation took effect in July, it had no impact on policies cancelled earlier in the year. Written another way, a policy issued in August of 2011 was already 11 months old when the commission structure changed in July of 2012. Over half of the policies had, therefore, already cancelled. As time passed, particularly starting in January, 2013, the trend turned around. Since that time, the percentage of policies reaching full term increased, then stabilized.



### C. Administrative Savings

The third reporting criteria addresses whether the revised structure “resulted in a savings in administrative costs for the Fund including functions and services performed by Fund producers intended to achieve the savings.” The variable commission structure helped MAIF’s overall operational efficiency while rewarding producers for the savings. Moreover, as MAIF grows as more uninsureds are brought into the market, the savings will continue to accumulate and increase. Thus, this change was an unqualified success.

#### **Implementation**

Increasing e-policy usage drives operational efficiencies. As noted in section A, the variable commission structure provided 2% additional commission for e-policy usage.

#### **Result**

Since the variable commission structure was implemented on July 1, 2012, 8,618 e-policies were written that would have otherwise been written as manual policies. MAIF estimates a \$12 in savings per e-policy, for a total savings of \$103,411.

At the time of the original estimate MAIF’s business volume was much higher than today. Changing the underlying assumptions to reflect the business conditions of 2012 would yield an estimate of 16,738 additional e-policies written, with a total savings of \$196,538.

### D. The Uninsured Motorist Problem

The final criteria was whether the commission change “resulted in fewer uninsured motorists in the State including the functions and services performed by fund producers intended to reduce the number of uninsured motorists, the number of uninsured motorists who obtain insurance from the Fund since the inception of the commission payment structure and any efforts by the Fund to identify uninsured motorists.” On this final prong, the results were a marginal advance that, in MAIF’s view, fell short of slowing the rising problem of uninsured motorists on the state’s roads.

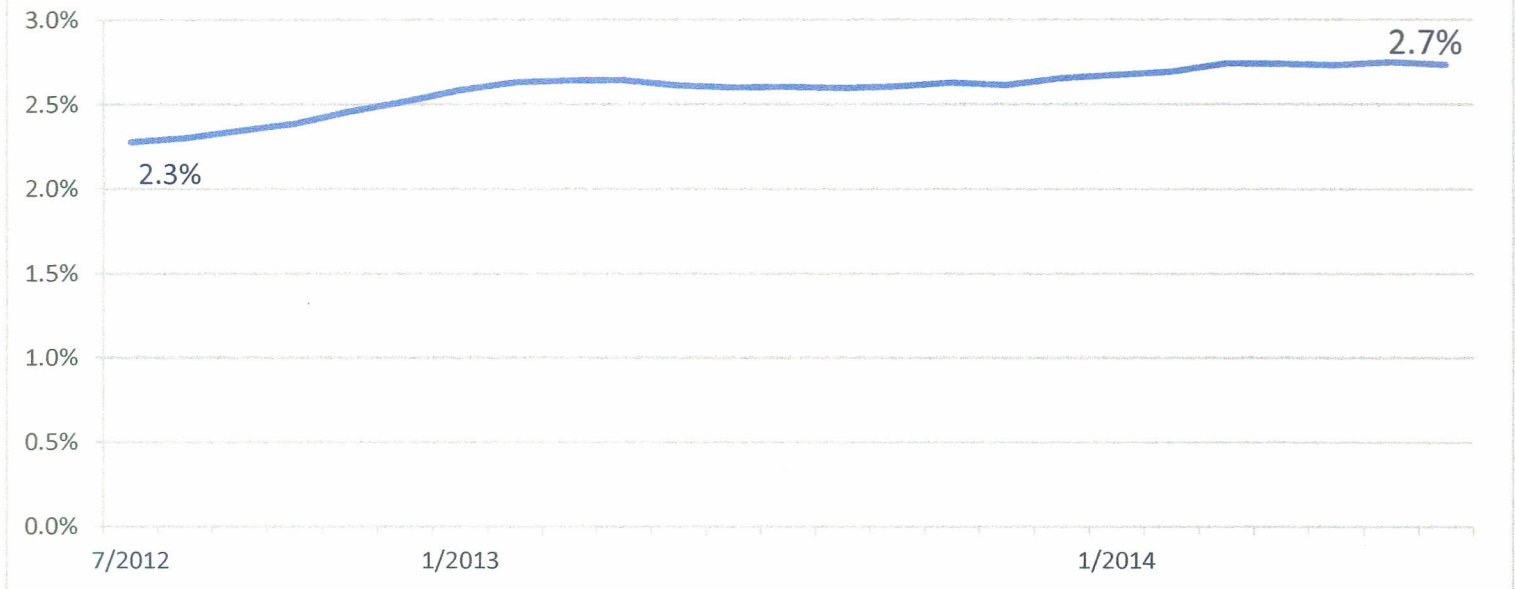
#### **Implementation**

In an effort to reduce the number of uninsured motorists in the state, MAIF offered an additional 2% commission above the 10% base on private passenger policies paid-in-full. A policy paid-in-full is a benefit to all Maryland drivers since the policy will not cancel and remains in force for one year.

#### **Result**

As shown in the chart below, the percentage of policies paid-in-full increased marginally from 2.3% on July 1, 2012 to 2.7% on June 30, 2014.

## Year-ending Percentage of PPA Policies Paid in Full



Recognizing that more work needs to be done in this area, MAIF took three additional steps.

First, in February 2012 MAIF began to offer a 5% paid-in-full discount on private passenger policies. With an average policy premium approaching \$2,000, this discount option saves the consumer \$100.00.

Second, pursuant to 2013 Senate Bill 930, MAIF initiated an installment plan. Prior to this legislation, MAIF was barred by statute from offering an installment plan.

MAIF's installment plan began on October 1 of 2013. It is designed to help policyholders maintain insurance. MAIF's plan charges no interest, has lower fees than premium finance companies, and payments are due every 45 to 60 days after the initial down payment (depending on the plan selected). To date, the cancellation rate for installed policies is 24%, compared to the approximated 50% cancellation rate for those participating in the premium financed plans.

Since January 2014, MAIF began educating MAIF's producer force on the installment plan. MAIF has held private passenger training classes, webinar sessions, visited 174 producers, and sent multiple mass communications informing producers of the installment plan benefits to its customers.

Third, and finally, in 2014, Senate Bill 153/ Chapter 41 passed creating a task force to study methods to reduce the rate of uninsured drivers. MAIF is a member of the task force, and looks forward to participating and finding solutions to address the uninsured motorist population.

**Conclusion**

The 2012 legislation allowing a variable commission plan at MAIF was a success. As a result of the plan and the work of Fund producers, MAIF achieved higher efficiencies, saved administrative expenses, and kept Marylander's insured.



## New Private Passenger Variable Commission Structure

**MAIF is happy to announce we have finalized our plan on a new variable commission structure effective July 1st, 2012!** This new commission structure was made possible by the passage of Senate Bill 1006 by the Maryland General Assembly and signed into law by Governor O'Malley on May 2nd, 2012.

The new commission structure effective July 1st, 2012 is as follows:

- 1) An additional 2% commission will be paid on **all Private Passenger ePolicies including Producer Link policies.**
- 2) An additional 2% commission will be paid on **all Private Passenger Paid in Full policies (not financed).**

Note: Our I.T. staff is putting the final touches on this programming change and if all goes as planned will release the program on Monday, July 2nd. ePolicies and Private Passenger Paid in Full policies issued prior to the release date with an inception date of July 1<sup>st</sup> or later will be manually corrected by MAIF's Underwriting Department to credit the correct commission.

- 3) Producers will receive an additional 1% or 2% commission on **all Private Passenger policies that stay in force for the entire 1 (one) year policy term.**

Note: If the producer has already received 14% commission because the policy was both an ePolicy and Paid in Full the additional commission will be 1%. If the original commission on the policy was 12% the producer will receive an additional 2%. Under no circumstance will the entire commission paid exceed 15%. Once the policy has been in an expired status for at least 30 days, the additional commission will be credited to the producer's monthly commission statement.

The exciting news is that full term policies that expire on or after July 1st, 2012 are eligible for the increased commission!

Producers will find the commission rate on the MIPS Producer screen / Policy List Options / All Active and Pending Policies by Name.

Please call Policy Services at 800-445-1117 if you have any questions.