

MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor



INSURANCE
ADMINISTRATION

525 St. Paul Place, Baltimore, Maryland 21202-2272
Direct Dial: 410-468-2090 Fax: 410-468-2020
Email: rtyler@mdinsurance.state.md.us
1-800-492-6116 TTY: 1-800-735-2258
www.mdinsurance.state.md.us

RALPH S. TYLER
Commissioner

BETH SAMMIS
Deputy Commissioner

December 3, 2008

The Honorable Ulysses Currie, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building
Annapolis, Maryland 21401

The Honorable Norman H. Conway, Chair
House Appropriations Committee
House Office Building
Annapolis, Maryland 21401

Re: 2008 Joint Chairmen's Report
Maryland Automobile Insurance Fund

Dear Mr. Chairmen:

On October 3, 2008, the Maryland Insurance Administration (MIA) and the Maryland Automobile Insurance Fund (MAIF) jointly submitted a report regarding the surplus of MAIF's insured division. We have just discovered two needed corrections.

First, the last sentence on p.10, third full paragraph reads as follows: "Under this measurement MAIF's ratio of surplus was the lowest of the top twenty property and casualty insurers in Maryland." This sentence refers to the chart attached as Appendix C to the report. This sentence is wrong and should be corrected to read as follows: "Under this measurement MAIF's ratio of surplus was in the middle of the top twenty property and casualty insurers in Maryland writing auto insurance."

Second, on p.11, third full paragraph, line 4, there is a reference to the "\$85 million bailout for AIG." The word "billion" should be substituted for the word "million" (as has been widely reported, the amount of the bailout to date far exceeds \$85 billion"). Enclosed herewith are corrected copies of the report.

The MIA and MAIF sincerely regret these errors.

Very truly yours,

Ralph S. Tyler
Commissioner

M. Kent Krabbe
Executive Director, MAIF

RST:tlw

cc: The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch

2008 JOINT CHAIRMEN'S REPORT

Study of the Surplus of the Insured Division of the Maryland Automobile Insurance Fund



October 3, 2008

For further information concerning this document contact:

Kimberly Y. Robinson, Esq.
Director of Government Relations
Maryland Insurance Administration
525 St. Paul Place
Baltimore, MD 21202
410-468-2202

Sandra Dodson
Associate Director, Government Affairs
Maryland Automobile Insurance Fund
1750 Forest Drive
Annapolis, MD 21401-4230
410-269-4346

This document is available in alternative format upon request
from a qualified individual with a disability.
TTY 1-800-735-2258

MIA's website address: www.mdinsurance.state.md.us

MAIF's website address: www.emaif.com

TABLE OF CONTENTS

I.	Executive Summary	1
II.	Overview of Insurance Regulation.	2
	A. Financial Regulation of Property and Casualty Insurers	2
	B. Capital and Surplus Standards	2
	C. Risk Based Capital.....	3
III.	The Maryland Automobile Insurance Fund.....	5
	A. A Public/Private Partnership.....	5
	B. The Assessment Mechanism.....	5
	C. The Public Nature of MAIF.....	6
IV.	Surplus of the Insured Division of the Maryland Automobile Insurance Fund.....	7
	A. The History of the MAIF Surplus.....	7
	B. External Factors Impacting Surplus Needs.....	8
	C. MAIF Factors Impacting Surplus Needs	8
V.	MAIF’s Current Surplus is Reasonable.	9
	A. Assessment Trigger.....	9
	B. Risk Based Capital (RBC).	9
	C. Ratio of Premium to Surplus.....	10
	D. Preliminary Analysis of MAIF’s Surplus.	10
VI.	A Formal Process for Evaluating MAIF’s Surplus.....	10
	A. Methods for Determining the Reasonableness of MAIF’s Surplus.....	11
	B. Who should make the determination?.....	12
	C. Determining if the surplus has become excessive.	12
	D. Disposition of any Excess Surplus.....	11
	E. Timelines.....	12
VII.	Conclusion	13

I. Executive Summary

As part of the 2008 Joint Chairmen's Report on the State's operating budget, the Maryland Insurance Administration (MIA) and the Maryland Automobile Insurance Fund (MAIF) were asked to study issues related to the surplus in MAIF's Insured Division and to make recommendations on three topics: options for determining the reasonableness of the surplus; who should be responsible for making this determination; and the methods of reducing the surplus if it is determined to be excessive. This report has been prepared jointly by the MIA and MAIF to respond to this request.

There is certainly a point at which an insurance company's surplus is excessive, even for a unique insurer like MAIF. Based on current information, however, there is no reason to believe that MAIF's current surplus is unreasonable. By all relevant measures, MAIF's surplus level is consistent with and in many cases far less than that maintained by other automobile insurance companies operating in Maryland. Furthermore, in light of the nation's financial crisis, the full implications of which remain unknown, prudence counsels strongly against reducing MAIF's surplus.

To ensure that MAIF's surplus is not excessive in the future, the MIA and MAIF have committed to a formal process to examine and report on MAIF's surplus. The three-step review process will begin with MAIF providing the MIA with an analysis of the appropriateness of its level of surplus. This analysis shall include comprehensive information regarding the following factors:

- Key financial indicators
 - Ratio of surplus to the assessment trigger
 - Surplus as measured by Risked Based Capital
 - Ratio of premium to surplus
 - Financial projections, including projected future trends in surplus amount
- External economic trends
 - Financial markets
 - Maryland's private passenger automobile liability insurance market
- MAIF's internal economic trending
 - Geographic diversity
 - Market share
 - Increase or decrease of policies in force
- Any other information the Commissioner considers appropriate

The second step will involve the MIA staff conducting a thorough review of MAIF's analysis and making a recommendation to the Insurance Commissioner regarding MAIF's surplus. Step three will involve the Commissioner determining whether MAIF's surplus is (or is not) excessive. If deemed excessive, the Commissioner would order MAIF to take the steps necessary to reduce the surplus. This approach is modeled on the current law applicable to non-profit health plans and will be documented by a Memorandum of Understanding between the MIA and MAIF, a process similar to that used in the MIA's review of the Injured Worker's Insurance Fund.

II. Overview of Insurance Regulation

The goals of insurance regulation are to promote the welfare of the public by ensuring fair contracts at fair prices from financially strong companies. Regulation is intended to prevent market failures, including financial insolvency of insurance companies and unfair treatment of insureds. These dual goals assuring insurer solvency and fair treatment of consumers include availability and affordability of insurance.

In 1945, Congress in the McCarran Ferguson Act reaffirmed the right of the federal government to regulate insurance, while agreeing that the federal government would not exercise this right as long as the industry was adequately regulated by the states. State regulation is the dominant mode of regulation of the insurance industry in the United States.

A. The MIA's Financial Regulation of Property and Casualty Insurers

The MIA was created in 1872. In 1878, the agency was renamed the State Insurance Department and became an independent State agency reporting directly to the Governor. In 1970, the State Insurance Department became a division of the newly created Maryland Department of Labor, Licensing and Regulation. In 1993, the MIA again became an independent State agency.

The MIA's Examination and Auditing staff is responsible for monitoring the financial solvency of the various insurers conducting business in the State of Maryland. The Examination and Auditing Section's responsibilities include financial analyses and examinations of licensed companies and applicants for licensing.

The Examination and Auditing Section consists of three major sections: Company Licensing, Financial Examination, and Financial Analysis. Examinations are conducted to identify, as early as possible, insurance companies in financial distress or those engaging in activities that are not in compliance with Maryland laws. This is accomplished by performing analyses of insurers' annual and quarterly financial statements, reviewing various other filings, and by conducting on-site examinations of each company at least once every five years. The staff also reviews financial information for insurers domiciled in other jurisdictions and audits of insurers' quarterly and annual premium tax reports.

B. Capital and Surplus Standards

An insurer's first obligation is to have sufficient capital to meet its financial commitments. An insurer must demonstrate that it has the required capital to begin business and sustain operations throughout the life of the company. For authorized property and casualty insurers, Maryland sets minimum capital and surplus requirements. When a company's capital and surplus fail to meet the required minimum, the company is considered legally impaired. When a company's liabilities exceed its assets, the company is insolvent.

Section 4-103 of the Insurance Article specifies the capital required for insurers and requires that, “[i]n addition to any other capital and surplus requirements of this article, each insurer’s assets and surplus as regards policyholders shall be reasonable in relation to the insurer’s outstanding liabilities and adequate to its financial needs.” MD. CODE. ANN., INS. ART., § 4-103 (emphasis added).¹ In addition to Risk Based Capital requirements (explained below), the statute requires that other factors be considered. These include:

- the size of the insurer as measured by its assets, capital and surplus, reserves, premium writings, insurance in force, and other appropriate criteria;
- the extent to which the insurer’s business is diversified among several lines of insurance;
- the geographical dispersion of the insurer’s risks;
- the recent past and projected future trends in the size of the insurer’s surplus as regards policyholders; and
- the surplus as regards policyholders maintained by comparable insurers.

C. Risk Based Capital

Risk Based Capital (RBC) is a method for establishing the minimum amount of capital an insurance company must have to support its business operations based upon the company’s size and risk profile. RBC standards are used to determine when to take regulatory actions relating to an insurer that shows indications of a weak or deteriorating financial condition. It also provides an additional standard for minimum capital requirements that companies must meet to avoid being placed into receivership.

A company’s RBC is calculated by applying factors to various asset, premium and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of a company’s capital is then measured by comparison to its RBC as determined by the formula.

Section 4-302 sets out the State’s public policy to safeguard the solvency of insurance companies operating in Maryland:

- (1) an insurer should maintain an amount of capital in excess of the minimum RBC levels derived from the risk based capital requirements contained in this subtitle and the attendant formulas, schedules, and instructions; and
- (2) additional capital is used and useful in the insurance business and helps to secure an insurer against various risks inherent in, or affecting, the insurance business and not accounted for or only partially measured by the risk based capital requirements contained in this subtitle.

Regulators will take action when a company’s capital requirement sinks to 200% of authorized control level RBC, as calculated by the RBC formula.

¹ Unless otherwise indicated, all statutory references are to the Insurance Article of the Maryland Annotated Code.

Authorized control level is the point at which regulators can take over a company based solely upon a RBC failure. However, the MIA expects insurers to maintain a surplus well above the 200% minimum. When a company hits the minimum RBC level that is a sign of significant deterioration and poses risk to consumers.

The RBC formula considers credit, investments, underwriting, and other operating risks faced by insurers seen from the vantage point of the company's balance sheet. However, as § 4-302 recognizes, there are other and additional risk factors that impact an insurer. These include: degree of product and geographical diversification; changes in the marketplace; future capital needs for the company's infrastructure; requirements on the state or federal level that necessitate the development of new products; the enhancement of technologies; changes in the legislative and regulatory environment; and general economic conditions.

In Maryland, most property and casualty insurers have an RBC level many times the statutory minimum. This point is confirmed by the chart attached as Appendix A. A company's surplus may appear "excessive" purely from an RBC standpoint (because surplus is some multiple of RBC), but not be when the company's overall circumstances and risk exposure are examined. Minimum RBC cannot be viewed as a measure of a company's health and is not a valid basis for determining if a company's surplus is excessive.

The National Association of Insurance Commissioners (NAIC) Casualty Actuarial and Statistical Task Force emphasized this point in a statement regarding *Regulatory Guidance on the Misuse of RBC in Ratemaking* (Appendix B). The Task Force reiterated that the role of RBC is as a measure of the minimum needed to avoid regulatory intervention and stressed that RBC is not an appropriate measure to be used for other purposes such as ratemaking, assessment of an insurer's profit, or excessiveness of an insurer's surplus:

A misuse of RBC standards...is to suggest that higher levels of RBC indicate that rates are too high. [The report in question characterized] RBC at the Company Action level as the amount the NAIC "deems adequate" and characterized surplus generally as an "extra cushion." These are serious mischaracterizations of Risk-Based Capital levels that are, in fact, the minimum capital levels allowed before state insurance commissioners are required to take action. The financial statement and RBC were designed by the NAIC...to evaluate the financial solvency of individual insurers and should not be used for other purposes.

Appendix B (emphasis added).

As a matter of sound public policy, insurance regulators should err on the side of caution when reviewing surplus levels. There is no benefit to consumers if an insurer is insolvent. Today's rapidly changing marketplace is particularly sensitive to and intolerant of financial weaknesses. A company without a strong surplus is at far greater risk of failure.

III. The Maryland Automobile Insurance Fund

MAIF is an independent agency of the State of Maryland created in 1972 by the General Assembly. MAIF was created to insure drivers who cannot obtain insurance in the private market and to protect the public from damages caused by these drivers. Wilner, Alan M., *Memorandum of Governor Mandel's Legislative Officer* (March 12, 1976). MAIF insures Maryland residents who were refused a policy by at least two private insurers, or had their policy cancelled. MAIF is a unique entity, filling the role performed in other states by joint underwriting associations or assigned risks plans.

MAIF does not have a sales force; any insurance producer (agent) qualified to do business in Maryland may, subject to the Fund's rules, sell MAIF coverage. Currently, there are 1,432 active MAIF producers throughout the State. MAIF producers receive a commission on private passenger policies of 10% of premium paid for the MAIF policy. Section 20-512.

The majority of MAIF's policies are private passenger. Ninety eight percent (98%) of those policies carry only the minimum required bodily injury limits of \$20,000 per person, \$40,000 per accident, and property damage of \$15,000. The majority of MAIF's policyholders are residents of Prince George's County, Montgomery County, and Baltimore City.

Because of its status as insurer of last resort, MAIF has few underwriting eligibility standards. Unlike private insurers, MAIF is precluded by State law from financing its own premiums or accepting premium payments on an installment basis. As a result, the vast bulk of its policies (97%) are financed through premium finance companies.

A. A Public/Private Partnership

MAIF is governed by a thirteen-member Board of Trustees. Section 20-202. Seven of the trustees are appointed by the Governor, with the advice and consent of the Senate. Five trustees are appointed to four-year terms by Maryland Industry Automobile Insurance Association (MIAIA). The MIAIA is a statutory creation and its membership consists of insurers licensed to write motor vehicle liability or property insurance in Maryland. Of the five MIAIA appointed members, two must be residents of Maryland. MAIF's Executive Director is also a member of the Board. Section 20-202(b)(iii). Chairmanship of the Board of Trustees alternates every two years between the gubernatorial and industry appointees.

B. The Assessment Mechanism

MAIF does not received a State appropriation but operates on premium income, investment income, and subrogation collections. Section 20-301(b). By law, the debts and obligations of MAIF are not debts of the State or a pledge of its credit. Section 20-302(c). If MAIF cannot financially support itself, there is an assessment of Maryland's auto insurance policyholders. Sections 20-401 - 20-411.

The statutory assessment formula requires an assessment when MAIF's "year-end total surplus" for the calendar year is equal to or less than "25% of the average of net direct written private passenger automobile premiums of the Fund for each of the three immediately preceding calendar years." Section 20-404(b)(2). MAIF's assessment formula is the statutory "floor" for measuring MAIF's financial health.

Between 1976 and 1989, an assessment of private policyholders was required to support MAIF. Each insurer doing business in Maryland was given a calculated assessment amount and this amount was transmitted to MAIF. Section 20-405. Industry members, in turn, passed along the cost of the assessment to their policyholders through an increase to the premium billing for the next year. The assessment was shown on Maryland drivers' insurance bills as "recoupment of MAIF assessment." Section 20-408. MAIF has not assessed the driving public since 1989.

By 1995, the MAIF surplus was healthy enough that the General Assembly enacted legislation altering the assessment mechanism to assure that assessments would not occur so long as MAIF's surplus remains above a statutory trigger. Section 20-404. This is the law today.

C. The Public Nature of MAIF

The assessment mechanism is the most striking difference between MAIF and private insurance companies. However, MAIF differs from private insurers in several other significant ways. MAIF's premiums are "subject to the approval of Commissioner." Section 20-507(a). By contrast, private auto insurers are not required to secure prior rate approval. When reviewing MAIF's rates, the Commissioner must consider not only the rating principles applicable to insurance companies, but also MAIF's statutory purpose to provide auto insurance "to those eligible person that are unable to obtain it from a [private insurer]." Sections 20-301(a); 20-507(d).

MAIF's staff is subject to the rules and regulations relating to all State employees. Section 20-204(a). The General Assembly and the State Department of Budget and Management assist MAIF in establishing salary ranges and fringe benefit packages. MAIF's budget is reviewed by the General Assembly and its operations are reviewed by State Legislative Auditors. Section 20-304. MAIF does pay a premium tax of 2% of direct premiums written like a private insurer. Section 6-102.

IV. Surplus of the Insured Division of the Maryland Automobile Insurance Fund

A. The History of the MAIF Surplus

As with any insurance company, a strong surplus is critical to MAIF's financial stability. A surplus allows MAIF to meet its financial obligations to its policyholders and protects the entire Maryland driving public from paying an assessment to support MAIF.

By the end of 1995, the MAIF surplus had grown to \$111 million. However, from 1996 to 1999, policies declined 58% (from 124,743 to 52,155).² As policies declined, the MAIF surplus grew from \$111 million to \$158 million. This inverse relationship (MAIF's surplus increases as the number of MAIF policies decreases) is the result of the market forces that prompt the private market to underwrite MAIF's insureds thereby reducing the amount of risk contained on MAIF's book of business. Reduced risk translates into reduced payouts and, as a result, MAIF's surplus grows. MAIF's surplus also increases with growth in the financial markets; the surplus declines when the markets move in the opposite direction.

From 2000 to 2002, the number of MAIF policies began to increase significantly, doubling from 52,155 to over 108,000. During this time, MAIF's surplus fell by more than half from \$158 million to \$74 million. The stock market's major decline (the burst of the high tech bubble) along with an economic downturn led private insurers to harden their underwriting guidelines and shed their risk. As MAIF's policies grew between 2000 and 2002, MAIF's surplus declined by over \$83 million. By the end of 2002, MAIF's surplus was only \$35 million above the assessment trigger level.

Between 2003 and 2007, the number of MAIF policies began another decline with a corresponding growth in surplus. MAIF's policies declined from 108,000 in 2004 to 65,700 as of July 2008. A solid economy and favorable investment climate saw marginal risks return to the private market. Cyclical forces led to improved accident frequency trends and the industry as a whole saw strong financial growth. MAIF's investment income also grew during this time.

The growth in the MAIF surplus ended in October 2007, with the surplus peaking at \$190 million. From the end of 2007 through August 2008, the MAIF surplus declined by 10% (\$19.2 million). If the current decline in surplus is of the same percentage level as occurred in the last cycle, MAIF's surplus could drop to \$78 million, just \$28 million above the assessment trigger.

This report is being completed on September 30, 2008. The financial world is in turmoil, if not crisis. On September 29, 2008, the United States House of Representatives rejected the Bush Administration's proposed \$700 billion bailout program and the Dow Jones Industrial Average fell 777 points, the largest decline in history. The consensus economic forecast for the balance of 2008 and at least for the first half of 2009 is not positive. With history as a guide, one can expect this economic environment to result in

² In this report, the phrase "MAIF surplus" refers to the surplus of MAIF's Insured Division.

an increase in the number of MAIF policies and a decline in MAIF's surplus. History also suggests that these changes can occur quickly.

B. External Factors Impacting Surplus Needs

The external factors that impact the MAIF's surplus include: equity and bond market volatility; the health of the insurance industry as a whole; industry changes in underwriting standards; industry catastrophic losses; and the availability of reinsurance.

In a highly volatile financial market, more surplus is necessary to ensure that volatility alone does not radically lower the surplus, pushing MAIF toward an assessment. Because MAIF insurance is available only to those who have been turned down by two carriers or cancelled by one, the financial condition of other insurance companies is critical. When the insurance industry and companies are thriving, they expand their books of business and write business that would otherwise end up at MAIF. This lessens the pressure on surplus (again, this is because MAIF's surplus increases as its book of business declines). Similarly, when private companies are not prospering, they will reduce their Maryland writings, shifting more insureds into the MAIF market, and thus diminishing MAIF's surplus.

A closely related economic factor that impacts MAIF's surplus is the tightening or the loosening of the underwriting standards at private insurance companies. As private insurers shed risk and lessen their presence in Maryland via tightened underwriting standards, MAIF will experience a significant increase in its volume of business. Again, substantial surplus erosion will follow substantial policy growth.

Other economic factors that impact the external insurance industry include the risk of catastrophic losses such as hurricanes. These kinds of catastrophic losses produce a tightening of underwriting standards in the private market and lead to the impact described above. MAIF itself is vulnerable to a catastrophe or more localized event such as severe winter weather because MAIF policyholders are geographically concentrated.

Finally, the availability or lack of availability of reinsurance is an important factor. If the industry has easy access to reinsurance, it can protect itself from significant financial volatility. In a time of limited reinsurance availability, the MAIF surplus needs to be strong.

C. Unique Factors Impacting MAIF Surplus

MAIF has a significant "new business penalty" during times of rising applications. This "penalty" is the cost of writing new business, which is recouped over the life of the annual policy. Because a high percentage of MAIF policies cancel in the first three-to-four month period, MAIF has the expense of writing new business without the off-set of annual earnings.

Additionally, because MAIF is an insurer of last resort, it is more difficult to control operating expenses during times of policy growth. When MAIF experiences

rapid growth, it adds staff to process the increased claims. This drives up costs. There is good reason to believe that MAIF is entering a period of policy growth.

V. MAIF's Current Surplus

There are certainly circumstances under which MAIF's surplus would be considered excessive. During this current period of extreme economic uncertainty, however, it would take significant evidence to conclude that it is appropriate to reduce MAIF's surplus. Given the current financial crisis, less liquidity is available in the marketplace. Therefore, insurance companies will likely tighten their underwriting guidelines and MAIF can anticipate an increase (and perhaps a very significant increase) in the number of policies in force.

As of August 31, 2008, MAIF's surplus stood at \$ 171 million. This is a 10% decline since October 2007.

A. Assessment Trigger

MAIF's 2008 assessment trigger stands at \$34.8 million (25% of net direct written premiums). The assessment trigger is not, however, the proper tool for measuring when surplus is excessive. Because of the cyclical nature of MAIF's surplus and operating results, capping the MAIF surplus at the assessment level would require a MAIF assessment each year that MAIF has adverse operating results. Thus, just as private insurers must maintain a level of surplus well above their RBC control levels, MAIF's surplus should be well above the assessment trigger.

MAIF's 2000 to 2003 financial history shows that a surplus to assessment ratio as high as 6 to 1 is necessary to avoid an assessment. In 2000, for example, the MAIF surplus was \$152 million, and the assessment trigger was \$26.8 million. By the end of 2002, after two years of national economic difficulty (although the downturn in that period was probably a far less severe downturn than the current period), surplus sank to \$74 million. During this same time period, the assessment trigger rose to almost \$40 million. By the end of 2002, MAIF's surplus was only \$35 million above the assessment trigger. The lessons of this period are that surplus can swing significantly and quickly. If that downturn had continued for another year, or if MAIF had failed to receive MIA approval for aggressive rate actions, an assessment on the driving public likely would have been necessary in 2003, despite MAIF's having had a record surplus in 2000.

At the end of 2007, MAIF's surplus to assessment trigger ratio was below 5 to 1. This is below its historic high, and a lower ratio than that which existed in 2000.

B. Risk Based Capital (RBC)

Statutory RBC requirements do not apply to MAIF. Nonetheless, MAIF does annually calculate and report its RBC level to the MIA. MAIF's RBC is in line with private insurers writing automobile insurance in Maryland. As of December 31, 2007, 353 automobile insurance carriers reported their RBC ratios to the MIA and their respective percentages vary widely, with many being significantly higher than MAIF.

For the thirty-one (31) companies that have more than \$20 million in total direct written premium (which includes MAIF), the median RBC percentage is 987%. MAIF falls below the median at 981%.

C. Ratio of Premium to Surplus

The ratio of premium to surplus is a calculation commonly used by the property and casualty insurance industry as a measure of financial strength or to indicate to what degree a particular insurance company is leveraged. The ratio is designed to measure the ability of an insurer to absorb above-average losses and is computed by dividing net premiums written by surplus. However, this figure alone does not provide sufficient information to conclude that a surplus is unnecessarily high, because a low ratio can be a sign of financial strength, but it also may indicate insufficient loss reserves or premium growth. Currently MAIF's premium to surplus ratio is financially healthy at less than one to one. However, if MAIF experiences a decline in surplus similar to those in past market cycles, combined with an increase in premiums written, this ratio could approach unsafe levels in a short period of time.

D. Preliminary Analysis of MAIF's Surplus

MAIF has compiled, at the MIA's request, a preliminary analysis of financial information that is among the data that should be subject to annual review. For example, the MIA and MAIF compared the size of the MAIF surplus to that of Maryland's top property and casualty carriers by market share. This analysis was conducted under two different methodologies, and each showed that MAIF's surplus was reasonable when compared to private carriers.

In the chart labeled Appendix C, surplus was compared to RBC to "company action levels" for the top twenty property and casualty insurance companies, which write auto insurance. For the nineteen private carriers (the entire top twenty except MAIF), this company action level is defined by reference to RBC. Section 4-302. For MAIF, the minimum level was calculated by using MAIF's statutory assessment trigger. MAIF's assessment trigger was used because this is the level, determined by the General Assembly, at which MAIF must add to its surplus. Under this measurement MAIF's ratio of surplus was in the middle of the top twenty property and casualty insurers in Maryland writing auto insurance.

Appendix D provides a second mode of analysis comparing RBC levels for the top 10 companies by market share. Under this methodology, MAIF's surplus ratio stands in the middle of the ten carriers.

Another way of looking at this question of the appropriateness of MAIF's current surplus level involves asking what a private insurer would do with a surplus comparable to that of MAIF. When a private insurer determines that it has an excess level of surplus (meaning surplus is more than sufficient to satisfy regulatory and rating requirements and internal needs), it can be expected to deploy its excess surplus funds in some more economically efficient fashion (by, for example, expanding into other lines, acquiring other insurers, or paying increased dividends to shareholders). The data comparing

MAIF's surplus to that of private insurance carriers indicates that a private insurer with a surplus level comparable to MAIF's would be unlikely to view its surplus as "excessive" such that it would be looking to deploy any portion of its surplus in some way other than retaining it to meet operational obligations.

VI. A Formal Process for Evaluating MAIF's Surplus

Whatever else one might say about MAIF's surplus, it is a certainty that its level varies and, indeed, varies rather dramatically. Accordingly, a reasonable level of surplus today might become unreasonable and excessive. In recognition of this fact, the MIA and MAIF will enter into a formula Memorandum of Understanding to institute an annual review of MAIF's surplus.

A comprehensive assessment of surplus is necessary as there is no single measure - whether RBC or assessment trigger or premium to surplus ratio - to measure the appropriate level of surplus.

It would not be prudent, however, to set a fixed number (an arbitrary RBC percentage, for example) as an "action level high point" because the marketplace is too dynamic and changes too quickly. If the events of September 2008 (e.g. collapse of Lehman Brothers, \$85 billion bailout for AIG, potential \$700 billion bailout of financial markets) prove anything, they prove how unpredictable and fast moving the markets are.

A. Method for Determining the Reasonableness of MAIF's Surplus

The most suitable method for determining the reasonableness of MAIF's surplus is one that looks at a wide range of factors including:

- the ratio of the surplus to the assessment trigger;
- the surplus as measured by RBC;
- the ratio of premium to surplus;
- external economic factors, including the overall financial climate;
- trends in the automobile insurance market nationally and in Maryland;
- financial projection including projected premium and surplus levels for the next twenty-four (24) months;
- type of insurance provided by the insurer;
- quality of the risk assumed by the insurer;
- geographic scope of the insurer's market;
- insurers' relative market share and competitive position in the marketplace;
- overall best interest of the insurance consumer; and
- other factors as required by the Commissioner.

These factors include many of the benchmarks normally evaluated by the MIA when determining the financial health of insurers, as well as several factors that reflect MAIF's unique place in Maryland's insurance market.

B. Who should make the determination?

MAIF's Board of Trustees is currently required, at least annually, to "review the reasonableness and adequacy of reserves." Section 20-506(b). In addition, the MIA would require MAIF, on an annual basis, to examine its surplus and provide the Commissioner with a detailed report on a variety of economic and market factors. MAIF would include its appraisal of whether the surplus was excessive.

MAIF's appraisal would be followed by an analysis by the MIA's examiners, followed by a decision by the Commissioner. The MIA would review the analysis and determine whether MAIF has a larger surplus than is necessary to protect MAIF's insureds and to prevent an assessment to support MAIF. The MIA is in the best position to make this determination because of the needed technical expertise to evaluate the insurance market and the particular financial factors such as MAIF's assessment trigger, RBC, and premium to surplus ratios. If the Commissioner determines that the surplus is excessive, then he could order MAIF to take steps to reduce the surplus to a reasonable level. The Commissioner has the authority and discretion to, if necessary, hold a hearing and/or employ the services of an outside actuary.

This approach is consistent with the approach the General Assembly has taken in assessing the reasonableness of surplus for non-profit health service plans. *See* Section 14-117 (outlining surplus requirements for non-profit health service plans).

C. Determining if the surplus has become excessive

If the Commissioner determines that MAIF's surplus is excessive, the Commissioner would order MAIF to develop a plan to accomplish any necessary reduction of MAIF's surplus. Section 2-108. The plan would include the recommended method for reduction (e.g. reduction of rates, rebates to policyholders) and a proposed timeline for the reduction. Under the current statutory scheme, if MAIF's recommended plan is found lacking the Commissioner could direct policyholder relief in the form of reduced insurance premiums or direct rebates to current and/or former customers.

Again, this approach is consistent with the current law regarding non-profit health service plans. Section 14-117(e)(2) provides that if the Commissioner has determined that the company's surplus is excessive, "the Commissioner: (i) may order the corporation to submit a plan for distribution of the excess in a fair and equitable manner; or (ii) if the corporation fails to submit a plan of distribution within 60 days, may compile a plan and order the corporation to implement it." The General Assembly also made it clear that a distribution could only be made to subscribers and no distribution should be made "if the distribution would render the corporation impaired or insolvent." Section 14-117(e)(3) and (f).

D. Disposition of any Excess Surplus

Over the years, there have been proposals, none of which the General Assembly has enacted, to transfer funds from the MAIF Insured Division surplus to the State General Fund or to apply them to other uses. Such proposals raise legal and policy

questions of considerable complexity. Since the last assessment in 1989, the source of MAIF's surplus is policyholders' premium payments and returns earned on those premiums. The State has a strong interest in preserving a strict wall of separation between the State and MAIF. If the State treasury can benefit from MAIF's surplus, the State may well be held liable on some future occasion for MAIF's liabilities.

E. Timelines

The MIA and MAIF commit to enter into a Memorandum of Understanding by December 15, 2008, to formalize the above-outlined process to ensure that MAIF maintains a reasonable surplus. This is similar to the approach taken with the Injured Worker's Insurance Fund (IWIF), with which the MIA has a Memorandum of Understanding regarding financial reporting requirements. MAIF would be required to prepare and submit to the MIA its report based upon December 31 data by May 1 of each year, starting May 1, 2009. This date takes into account the March 1 annual financial statement filing deadline. By June 30, the MIA would complete its review (including any requests for additional information from MAIF) and the Commissioner would make a determination on the reasonableness of the surplus. The MIA would submit its report to the presiding officers of both chambers of the General Assembly and to the chairs and vice-chairs of the Senate Finance and House Economic Matters Committees (as well as posting the report on the MIA's website).

VII. Conclusion

The current period of economic uncertainty is a time for prudence and caution. As a nation, we are paying a high price because those virtues have been too little practiced.

A formal process should be established, as described above, to review the reasonableness of MAIF's surplus on an ongoing annual basis and to make timely adjustments as appropriate. Currently, MAIF's surplus is at a level comparable to that of other carriers and, if past is prologue, MAIF's surplus is likely to decline.

Appendix

**to the
2008 Joint Chairmen's Report**

**Study of the Surplus of the
Insured Division of the
Maryland Automobile Insurance Fund**

October 1, 2008

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
25178	176	State Farm Mut Auto Ins Co	IL	627,851,794	7,201,722	635,053,516	15.10%	64,815,304,753	7,465,359,781	868%
35882	31	Geico Gen Ins Co	MD	312,753,257	(112)	312,753,145	7.44%	76,428,512	2,003,734	3814%
19232	8	Allstate Ins Co	IL	303,848,298	6,481,717	310,330,015	7.38%	18,598,553,849	2,621,242,720	710%
22063	31	Government Employees Ins Co	MD	270,735,563	51,834	270,787,397	6.44%	5,104,381,183	918,099,614	556%
26271	213	Erie Ins Exch	PA	214,217,273	43,436,624	257,653,897	6.13%	4,677,922,601	466,186,618	1003%
23787	140	Nationwide Mut Ins Co	OH	223,924,221	10,428,447	234,352,668	5.57%	11,361,457,047	2,105,694,874	540%
34800	0	Maryland Automobile Ins Fund	MD	113,918,008	14,754,261	128,672,269	3.06%	184,753,525	18,832,445	981%
17230	8	Allstate Prop & Cas Ins Co	IL	125,080,971	0	125,080,971	2.97%	68,135,043	582,193	11703%
25941	200	USAA	TX	112,197,769	0	112,197,769	2.67%	12,980,490,664	858,496,126	1512%
22055	31	Geico Ind Co	MD	91,490,676	0	91,490,676	2.18%	1,827,242,955	212,522,213	860%
25143	176	State Farm Fire And Cas Co	IL	75,969,808	9,054,730	85,024,538	2.02%	10,161,463,413	1,131,734,609	898%
16322	155	Progressive Direct Ins Co	OH	78,484,747		78,484,747	1.87%	862,396,751	182,207,984	473%
23035	111	Liberty Mut Fire Ins Co	WI	72,163,827	6,295,814	78,459,641	1.87%	968,354,122	191,184,380	507%
25968	200	USAA Cas Ins Co	TX	73,458,697		73,458,697	1.75%	2,849,362,985	159,045,673	1792%
24252	155	Progressive American Ins Co	FL	59,307,045		59,307,045	1.41%	133,171,673	8,148,634	1634%
23779	140	Nationwide Mut Fire Ins Co	OH	53,282,400	4,244,606	57,527,006	1.37%	2,060,620,411	179,086,996	1151%
23760	140	Nationwide Gen Ins Co	OH	50,155,286		50,155,286	1.19%	23,973,348	57,028	42038%
42994	155	Progressive Classic Ins Co	WI	46,124,295		46,124,295	1.10%	80,456,865	12,096,309	665%
41491	31	Geico Cas Co	MD	41,742,012		41,742,012	0.99%	119,077,809	2,497,718	4767%
15130	8	Encompass Ind Co	IL	34,971,667	3,403	34,975,070	0.83%	21,947,264	146,293	15002%
11851	155	Progressive Advanced Ins Co	OH	33,580,558		33,580,558	0.80%	45,975,503	8,723,042	527%
25127	175	State Auto Prop & Cas Ins Co	IA	25,329,554	6,164,452	31,494,006	0.75%	615,962,047	62,083,842	992%
27998	3548	Travelers Home & Marine Ins Co	CT	31,401,021		31,401,021	0.75%	67,783,297	8,780,554	772%
11770	155	United Fncl Cas Co	OH		30,563,956	30,563,956	0.73%	416,075,360	73,730,474	564%
10071	8	Encompass Ins Co Of Amer	IL	29,785,764		29,785,764	0.71%	20,764,503	142,581	14563%
25453	140	Nationwide Ins Co Of Amer	WI	27,868,995		27,868,995	0.66%	86,516,940	225,913	38297%
24740	163	Safeco Ins Co Of Amer	WA	25,760,249		25,760,249	0.61%	838,610,694	169,624,453	494%
30104	91	Hartford Underwriters Ins Co	CT	12,321,171	12,866,113	25,187,284	0.60%	652,857,564	52,276,382	1249%
19240	8	Allstate Ind Co	IL	20,493,900	2,515,731	23,009,631	0.55%	73,541,311	767,741	9579%
13501		Brethren Mut Ins Co	MD	15,796,042	5,496,972	21,293,014	0.51%	97,405,645	8,213,371	1186%
25658	3548	Travelers Ind Co	CT	16,826,282	4,237,090	21,063,372	0.50%	8,470,643,647	1,465,262,004	578%
35173		Agency Ins Co Of MD Inc	MD	20,185,088		20,185,088	0.48%	21,490,433	2,914,986	737%
26301	242	Selective Way Ins Co	NJ		19,700,309	19,700,309	0.47%	200,100,015	43,528,172	460%
25712	1129	Esurance Ins Co	WI	18,178,072		18,178,072	0.43%	122,015,926	13,561,724	900%
14958	250	Peninsula Ins Co	MD	12,714,714	4,624,598	17,339,312	0.41%	36,904,467	2,479,447	1488%
25674	3548	Travelers Property Cas Co Of Amer	CT		16,602,154	16,602,154	0.39%	91,431,376	11,882,280	769%
34690	91	Property & Cas Ins Co Of Hartford	IN	16,144,074	69,385	16,213,459	0.39%	97,772,679	6,386,038	1531%
14990	271	Pennsylvania Nil Mut Cas Ins Co	PA	8,474,820	6,199,864	14,674,684	0.35%	402,036,565	62,467,953	644%
19682	91	Hartford Fire In Co	CT	2,977,612	10,764,501	13,742,113	0.33%	14,974,802,878	2,469,789,612	606%
10806	212	Farmers New Century Ins Co	IL	13,424,275		13,424,275	0.32%	59,603,516	8,397,438	710%
19976	28	Amica Mut Ins Co	RI	13,286,382		13,286,382	0.32%	2,297,887,422	158,765,561	1447%
37877	140	Nationwide Prop & Cas Ins Co	OH	10,600,422	2,100,237	12,700,659	0.30%	28,456,296	172,298	16516%
24260	155	Progressive Cas Ins Co	OH	3,551,319	9,135,908	12,687,227	0.30%	1,253,867,089	286,636,082	437%
14613	111	Montgomery Mut Ins Co	MD	9,777,713	2,730,358	12,508,071	0.30%	41,120,617	442,850	9285%
24074	111	Ohio Cas Ins Co	OH	9,860,286	2,373,305	12,233,591	0.29%	1,356,431,987	208,590,041	650%
11681	771	Keystone Ins Co	PA	12,074,446		12,074,446	0.29%	131,379,031	21,791,316	603%
14168	253	Harleysville Mut Ins Co	PA	3,673,902	8,054,852	11,728,754	0.28%	727,491,234	123,634,106	588%
39012	163	Safeco Ins Co Of IL	IL	11,592,985		11,592,985	0.28%	185,497,985	26,093,348	711%
29068	4	IDS Prop Cas Ins Co	WI	11,395,235		11,395,235	0.27%	424,289,254	33,453,566	1268%
10914	215	Kemper Independence Ins Co	IL	11,115,796		11,115,796	0.26%	20,884,518	2,583,906	808%
11000	91	Sentinel Ins Co Ltd	CT	9,149,418	1,935,346	11,084,764	0.26%	302,700,644	4,125,786	7337%

Top Ten

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
34339	241	Metropolitan Grp Prop & Cas Ins Co	RI	10,648,123		10,648,123	0.25%	277,194,966	15,909,533	1742%
10677	244	Cincinnati Ins Co	OH	(878)	10,609,096	10,608,218	0.25%	4,336,233,504	615,081,954	705%
14664	640	Mutual Benefit Ins Co	PA	7,803,404	2,784,346	10,587,750	0.25%	62,802,476	7,682,566	817%
16063	215	Unitrin Auto & Home Ins Co	NY	10,234,429		10,234,429	0.24%	29,011,204	3,834,831	757%
10226	215	Unitrin Direct Ins Co	IL	10,212,165		10,212,165	0.24%	13,580,664	944,017	1439%
16535	212	Zurich American Ins Co	NY		9,850,410	9,850,410	0.23%	6,744,712,291	1,910,475,655	353%
21326	212	Empire Fire & Marine Ins Co	NE		9,771,294	9,771,294	0.23%	54,648,395	4,260,169	1283%
18058	677	Philadelphia Ind Ins Co	PA	907,788	8,409,882	9,317,670	0.22%	1,169,049,114	133,264,308	877%
19070	3548	Standard Fire Ins Co	CT	8,627,265		8,627,265	0.21%	1,422,079,139	231,404,798	615%
21873	761	Firemans Fund Ins Co	CA	8,308,225	159,336	8,467,561	0.20%	2,894,209,152	676,178,263	428%
25666	3548	Travelers Ind Co Of Amer	CT	7,266,347	1,117,126	8,383,473	0.20%	134,350,962	24,874,736	540%
26263	213	Erie Ins Co	PA	8,329,622		8,329,622	0.20%	210,413,793	16,595,958	1268%
36587	12	AIG Natl Ins Co Inc	NY	8,275,136		8,275,136	0.20%	18,242,420	2,942,211	620%
33545		Seminole Cas Ins Co	FL	8,027,916		8,027,916	0.19%	14,613,373	4,855,967	301%
44393	111	West American Ins Co	IN	4,020,180	3,891,192	7,911,372	0.19%	213,876,422	3,911,910	5467%
39926	242	Selective Ins Co Of The Southeast	IN	7,667,997		7,667,997	0.18%	77,832,113	14,017,245	555%
32220	12	American Intl Ins Co	NY	7,526,282		7,526,282	0.18%	367,163,886	60,757,577	604%
11991	140	National Cas Co	WI		7,008,714	7,008,714	0.17%	103,573,732	1,611,589	6427%
33588	111	First Liberty Ins Corp	IA	6,037,750	869,243	6,906,993	0.16%	21,740,596	1,674,524	1298%
13692	250	Donegal Mut Ins Co	PA	5,708,693	1,015,155	6,723,848	0.16%	153,309,426	14,786,948	1037%
42447	79	National Gen Assur Co	MO	6,631,412		6,631,412	0.16%	20,164,604	23,588	85487%
20303	38	Great Northern Ins Co	IN	5,714,091	909,886	6,623,977	0.16%	374,275,266	70,488,230	531%
33855	1326	Lincoln Gen Ins Co	PA		6,434,389	6,434,389	0.15%	134,897,676	88,028,586	153%
20117	33	California Cas Ind Exch	CA	6,338,222		6,338,222	0.15%	318,118,288	25,808,270	1233%
36137	3548	Travelers Commercial Ins Co	CT	6,300,278		6,300,278	0.15%	82,711,069	15,137,233	546%
10464	262	Canal Ins Co	SC		6,195,476	6,195,476	0.15%	530,510,136	65,188,230	814%
21180	169	Sentry Select Ins Co	WI		6,158,642	6,158,642	0.15%	219,729,738	24,342,318	903%
41181	212	Universal Underwriters Ins Co	KS		6,084,422	6,084,422	0.14%	342,932,799	16,406,607	2090%
16128		Paramount Ins Co	MD	5,994,851		5,994,851	0.14%	2,135,125	515,482	414%
20443	218	Continental Cas Co	IL		5,879,961	5,879,961	0.14%	8,403,717,874	2,102,758,458	400%
12572	242	Selective Ins Co Of Amer	NJ		5,852,370	5,852,370	0.14%	535,362,670	104,928,624	510%
25321	241	Metropolitan Drt Prop & Cas Ins Co	RI	5,805,345		5,805,345	0.14%	24,625,042	196,321	12543%
14141	447	Harford Mut Ins Co	MD		5,787,741	5,787,741	0.14%	124,044,896	14,662,322	846%
42404	111	Liberty Ins Corp	IL	5,196,528	495,125	5,691,653	0.14%	363,996,810	51,018,181	713%
11252	8	Encompass Home & Auto Ins Co	IL	5,674,825		5,674,825	0.13%	6,145,417	13,122	46833%
18600	200	USAA General Ind Co	TX	5,611,639		5,611,639	0.13%	152,019,989	8,308,628	1830%
19399	12	AIU Ins Co	NY	5,326,942		5,326,942	0.13%	1,391,387,328	189,564,533	734%
21784	98	Firemens Ins Co Of Washington DC	DE		5,295,551	5,295,551	0.13%	32,010,227	131,546	24334%
26077		Lancer Ins Co	IL		5,048,921	5,048,921	0.12%	125,426,886	20,171,885	622%
14788	311	NGM Ins Co	FL	2,283,557	2,556,209	4,839,766	0.12%	619,567,815	64,663,049	958%
25623	3548	Phoenix Ins Co	CT		4,767,930	4,767,930	0.11%	1,173,652,967	244,592,731	480%
29963	408	United Farm Family Ins Co	NY	2,442,080	2,311,108	4,753,188	0.11%	7,602,292	766,016	992%
40720		Interstate Auto Ins Co Inc	MD	4,740,890		4,740,890	0.11%	1,620,025	718,623	225%
24066	111	American Fire & Cas Co	OH		4,391,562	4,391,562	0.10%	35,688,072	2,853,849	1251%
40169	241	Metropolitan Cas Ins Co	RI	4,358,572		4,358,572	0.10%	47,604,182	231,971	20522%
20281	38	Federal Ins Co	IN	2,057,901	2,272,058	4,329,959	0.10%	12,877,179,366	2,335,124,726	551%
24813	1330	Balboa Ins Co	CA	1,756,112	2,440,181	4,196,293	0.10%	875,876,616	112,183,799	781%
35289	218	Continental Ins Co	PA		4,101,177	4,101,177	0.10%	2,069,757,349	112,978,301	1832%
22667	626	Ace Amer Ins Co	PA		4,061,886	4,061,886	0.10%	1,816,515,054	417,308,184	435%
32620	84	National Interstate Ins Co	OH	24,850	4,008,676	4,033,526	0.10%	182,301,601	18,885,303	965%
19720	361	American Alt Ins Corp	DE		3,935,530	3,935,530	0.09%	154,474,780	29,108,431	531%

APPENDIX A

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
19380	12	American Home Assur Co	NY		3,877,048	3,877,048	0.09%	7,041,184,336	1,602,737,379	439%
24171	111	Netherlands Ins Co The	NH		3,857,632	3,857,632	0.09%	64,474,554	11,523,094	560%
10510	98	Carolina Cas Ins Co	IA		3,803,613	3,803,613	0.09%	257,399,893	49,431,224	521%
24198	111	Peerless Ins Co	NH		3,718,540	3,718,540	0.09%	1,470,307,585	285,104,975	516%
19530	175	State Auto Natl Ins Co	OH	3,234,155		3,234,155	0.08%	73,221,946	3,939,462	1859%
12475	201	Republic-Franklin Ins Co	OH		3,189,629	3,189,629	0.08%	38,539,899	3,294,409	1170%
11185	212	Foremost Ins Co	MI	3,106,744		3,106,744	0.07%	615,618,136	123,991,879	496%
13056	783	RLI Ins Co	IL		3,061,570	3,061,570	0.07%	752,004,325	79,833,666	942%
20087	31	National Ind Co	NE		3,023,476	3,023,476	0.07%	35,689,973,158	9,260,724,934	385%
11045	111	Excelsior Ins Co	NH		2,941,283	2,941,283	0.07%	42,941,894	56,461	76056%
24015	3548	Northland Ins Co	MN		2,933,579	2,933,579	0.07%	602,927,335	64,200,746	939%
10847	306	Cumis Ins Society Inc	IA		2,918,781	2,918,781	0.07%	508,366,348	60,465,155	841%
19356	212	Maryland Cas Co	MD		2,888,817	2,888,817	0.07%	402,959,911	16,112,205	2501%
22586	250	Atlantic States Ins Co	PA	1,174,608	1,593,989	2,768,597	0.07%	180,739,409	14,863,283	1216%
21261	57	Electric Ins Co	MA	2,244,832	470,413	2,715,245	0.06%	371,976,119	52,884,286	703%
21113	158	United States Fire Ins Co	DE		2,696,042	2,696,042	0.06%	1,160,929,809	209,993,052	553%
21253	200	Garrison Prop & Cas Ins Co	TX	2,693,547		2,693,547	0.06%	38,336,409	2,774,928	1382%
10675	771	AAA Mid Atlantic Ins Co	PA	2,651,755		2,651,755	0.06%	10,312,744	1,198,489	860%
19259	242	Selective Ins Co Of SC	IN	2,536,136	67,313	2,603,449	0.06%	94,298,372	18,229,456	517%
20478	218	National Fire Ins Co Of Hartford	IL		2,489,005	2,489,005	0.06%	186,842,113	1,049,389	17805%
21164	169	Dairyland Ins Co	WI	2,474,210		2,474,210	0.06%	460,475,676	39,917,476	1154%
24724	163	First Natl Ins Co Of Amer	WA	438,883	1,991,586	2,430,469	0.06%	74,815,608	10,444,228	716%
25682	3548	Travelers Ind Co Of CT	CT		2,424,971	2,424,971	0.06%	329,006,089	46,064,340	714%
13455	3678	Bankers Independent Ins Co	PA	2,413,614		2,413,614	0.06%	10,455,437	1,116,036	937%
24767	3548	St Paul Fire & Marine Ins Co	MN		2,401,040	2,401,040	0.06%	6,881,107,266	1,200,098,848	573%
25844	98	Union Ins Co	IA		2,369,604	2,369,604	0.06%	26,658,790	333,506	7993%
21172		Vanliner Ins Co	MO		2,357,743	2,357,743	0.06%	118,554,580	18,259,150	649%
10499		DaimlerChrysler Ins Co	MI		2,350,661	2,350,661	0.06%	76,115,903	9,293,450	819%
20508	218	Valley Forge Ins Co	PA		2,281,667	2,281,667	0.05%	58,828,167	223,402	26333%
19445	12	National Union Fire Ins Co Of Pitts	PA	(616,303)	2,753,717	2,137,414	0.05%	11,372,631,599	2,817,655,221	404%
19402	12	AIG Cas Co	PA	2,113,571	(19,681)	2,093,890	0.05%	1,780,550,069	377,850,203	471%
39900	250	Peninsula Ind Co	MD	2,053,309		2,053,309	0.05%	8,414,829	229,491	3667%
26247	212	American Guar & Liab Ins	NY		2,028,934	2,028,934	0.05%	153,621,420	43,559,987	353%
10723	140	Nationwide Assur Co	WI	2,027,448		2,027,448	0.05%	73,371,365	702,143	10450%
22683	300	Teachers Ins Co	IL	2,008,073		2,008,073	0.05%	117,929,406	15,002,533	786%
19704	163	American States Ins Co	IN		2,007,478	2,007,478	0.05%	512,064,268	96,629,983	530%
29459	91	Twin City Fire Ins Co Co	IN	3,388	1,849,110	1,852,498	0.04%	303,215,030	20,810,310	1457%
35483		Daily Underwriters Of Amer	PA		1,850,177	1,850,177	0.04%	20,758,903	969,401	2141%
28188	3548	Travco Ins Co	CT	1,830,873		1,830,873	0.04%	67,467,020	8,757,757	770%
11150	1279	Arch Ins Co	MO		1,824,692	1,824,692	0.04%	540,131,567	202,120,356	267%
12262	767	Pennsylvania Manufacturers Asn Ins C	PA		1,803,808	1,803,808	0.04%	207,554,697	41,737,366	497%
13242	140	Titan Ind Co	TX	1,774,725		1,774,725	0.04%	97,530,130	874,934	11147%
29424	91	Hartford Cas Ins Co	IN		1,753,868	1,753,868	0.04%	920,219,568	70,806,664	1300%
26085	1234	Warner Ins Co	CT	1,752,064		1,752,064	0.04%	21,730,471	3,352,851	648%
22322	1285	Greenwich Ins Co	DE		1,742,961	1,742,961	0.04%	329,643,924	89,653,642	368%
25984	201	Graphic Arts Mut Ins Co	NY		1,734,002	1,734,002	0.04%	48,020,368	5,357,995	896%
40649	241	Economy Premier Assur Co	IL	1,670,660		1,670,660	0.04%	33,931,783	160,430	21151%
19429	12	Insurance Co Of The State Of PA	PA		1,629,523	1,629,523	0.04%	1,796,898,777	425,832,167	422%
14753		Frederick Mut Ins Co	MD		1,608,785	1,608,785	0.04%	29,009,945	2,352,743	1233%
23841	12	New Hampshire Ins Co	PA		1,593,960	1,593,960	0.04%	1,266,393,721	244,633,901	518%
20427	218	American Cas Co Of Reading PA	PA		1,560,351	1,560,351	0.04%	120,722,043	536,559	22499%

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
22578	300	Horace Mann Ins Co	IL	1,544,920		1,544,920	0.04%	148,982,210	19,403,470	768%
26344	84	Great Amer Assur Co	OH	4,826	1,526,608	1,531,434	0.04%	16,374,490	64,554	25366%
22306	88	Massachusetts Bay Ins Co	NH		1,511,084	1,511,084	0.04%	44,698,133	194,368	22997%
28223	140	Nationwide Agribusiness Ins Co	IA		1,471,945	1,471,945	0.04%	55,254,891	234,903	23522%
23450	127	American Family Home Ins Co	FL	1,446,205		1,446,205	0.03%	139,025,414	29,250,801	475%
12904	3098	Tokio Marine & Nichido Fire Ins Co	NY	174,907	1,268,033	1,442,940	0.03%	515,615,481	89,997,051	573%
25615	3548	Charter Oak Fire Ins Co	CT		1,442,934	1,442,934	0.03%	228,385,579	41,129,338	555%
13293		Amalgamated Cas Ins Co	DC		1,440,350	1,440,350	0.03%	29,509,410	684,673	4310%
35696	253	Harleysville Preferred Ins Co	PA		1,438,840	1,438,840	0.03%	173,047,363	28,682,244	603%
38628	155	Progressive Northern Ins Co	WI	1,396,815	(35,642)	1,361,173	0.03%	314,924,250	57,770,320	545%
19100	140	Amco Ins Co	IA	10,963	1,289,922	1,300,885	0.03%	487,219,881	10,231,146	4762%
32441	271	Penn Natl Security Ins Co	PA		1,293,985	1,293,985	0.03%	187,027,679	25,437,170	735%
13528		Brotherhood Mut Ins Co	IN		1,291,723	1,291,723	0.03%	135,683,350	12,382,977	1096%
12831	93	State Natl Ins Co Inc	TX		1,287,116	1,287,116	0.03%	103,871,176	18,501,793	561%
22756	300	Horace Mann Prop & Cas Ins Co	CA	1,146,862		1,146,862	0.03%	57,326,628	5,165,616	1110%
18333	111	Peerless Ind Ins Co	IL		1,131,874	1,131,874	0.03%	166,895,641	1,683,197	9915%
10340	1331	Stonington Ins Co	TX		1,121,763	1,121,763	0.03%	124,869,659	27,862,029	448%
13935	7	Federated Mut Ins Co	MN		1,113,892	1,113,892	0.03%	1,791,251,423	144,156,622	1243%
25135	175	State Automobile Mut Ins Co	OH	986,703	95,276	1,081,979	0.03%	1,193,763,514	103,482,808	1154%
41424	767	Pennsylvania Manufacturers Ind Co	PA		1,057,574	1,057,574	0.03%	67,786,167	5,057,270	1340%
36463	3548	Discover Prop & Cas Ins Co	IL		1,034,722	1,034,722	0.02%	46,381,684	4,584,429	1012%
23809	12	Granite State Ins Co	PA		1,001,536	1,001,536	0.02%	33,586,907	393,869	8527%
42376	2538	Technology Ins Co Inc	NH		996,754	996,754	0.02%	132,652,289	27,214,392	487%
19828	457	Argonaut Midwest Ins Co	IL		987,464	987,464	0.02%	47,700,359	472,315	10099%
28339		Gateway Ins Co	MO		982,398	982,398	0.02%	16,344,471	1,974,086	828%
20494	218	Transportation Ins Co	IL		964,235	964,235	0.02%	91,330,509	241,896	37756%
40436	866	Stratford Ins Co	NH		950,899	950,899	0.02%	55,209,817	7,234,113	763%
20397	38	Vigilant Ins Co	NY	932,584	596	933,180	0.02%	150,316,570	9,842,468	1527%
29939	311	Main St Amer Assur Co	FL	932,274		932,274	0.02%	100,848,665	737,706	13671%
21849	761	American Automobile Ins Co	MO	504,407	416,875	921,282	0.02%	196,678,205	21,936,322	897%
23469	127	American Modern Home Ins Co	OH	772,489	113,090	885,579	0.02%	282,623,087	56,002,795	505%
24732	163	General Ins Co Of Amer	WA		860,564	860,564	0.02%	594,347,376	113,439,557	524%
21709	212	Truck Ins Exch	CA	836,767	13,637	850,404	0.02%	504,086,390	126,294,956	399%
34207	181	Westport Ins Corp	MO		837,697	837,697	0.02%	293,507,963	84,008,965	349%
26298	241	Metropolitan Prop & Cas Ins Co	RI	829,285		829,285	0.02%	1,825,829,666	242,847,923	752%
22012	79	Motors Ins Corp	MI		828,474	828,474	0.02%	1,883,418,484	232,778,735	809%
20095	150	Bituminous Cas Corp	IL		813,172	813,172	0.02%	272,179,124	37,898,348	718%
24147	150	Old Republic Ins Co	PA		796,645	796,645	0.02%	816,601,363	121,176,602	674%
19410	12	Commerce & Industry Ins Co	NY		796,602	796,602	0.02%	2,616,883,985	497,975,850	526%
22292	88	Hanover Ins Co	NH	401,210	386,483	787,693	0.02%	1,666,372,872	244,093,280	683%
22357	91	Hartford Accident & Ind Co	CT	521,282	223,385	744,667	0.02%	3,941,995,475	494,999,846	796%
40827	4254	Virginia Surety Co Inc	IL	642,083	88,999	731,082	0.02%	250,372,183	60,645,875	413%
10111	19	American Bankers Ins Co Of FL	FL	730,376		730,376	0.02%	373,665,025	90,264,744	414%
25976	201	Utica Mut Ins Co	NY		707,498	707,498	0.02%	764,481,792	92,675,364	825%
10859		First Nonprofit Ins Co	IL		701,356	701,356	0.02%	54,092,053	4,579,804	1181%
14974		Pennsylvania Lumbermens Mut Ins	PA		693,265	693,265	0.02%	111,864,470	16,952,618	660%
12157	661	Companion Prop & Cas Ins Co	SC		661,132	661,132	0.02%	151,112,976	25,274,796	598%
18767		Church Mut Ins Co	WI		650,550	650,550	0.02%	389,403,829	38,465,245	1012%
20346	38	Pacific Ind Co	WI	648,241		648,241	0.02%	1,842,863,365	306,089,857	602%
36064	88	Hanover Amer Ins Co	NH		634,971	634,971	0.02%	15,336,300	67,703	22652%
26042	111	Wausau Underwriters Ins Co	WI		630,224	630,224	0.01%	90,797,110	6,704,514	1354%

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
26069	111	Wausau Business Ins Co	WI		630,009	630,009	0.01%	50,209,858	6,661,585	754%
31968	215	Merastar Ins Co	IN	617,498		617,498	0.01%	13,361,380	3,949,616	338%
37478	91	Hartford Ins Co Of The Midwest	IN	7,029	592,709	599,738	0.01%	213,510,665	8,232,678	2593%
22268	3495	Infinity Ins Co	IN	559,713		559,713	0.01%	473,373,049	76,278,004	621%
26433	225	Harco Natl Ins Co	IL		548,419	548,419	0.01%	181,439,825	28,219,247	643%
43044	1234	Response Ins Co	CT	535,945		535,945	0.01%	68,014,989	7,740,555	879%
23248	225	Occidental Fire & Cas Co Of NC	NC		530,551	530,551	0.01%	158,531,627	29,817,297	532%
24988	169	Sentry Ins A Mut Co	WI	39,132	477,161	516,293	0.01%	3,019,877,994	407,360,310	741%
10676		First Guard Ins Co	AZ		502,159	502,159	0.01%	10,309,054	188,073	5481%
40134		SUA Ins Co	IL		498,304	498,304	0.01%	89,845,097	21,703,867	414%
44229		TrustStar Ins Co	MD	490,855		490,855	0.01%			0%
15032	303	Guideone Mut Ins Co	IA		471,043	471,043	0.01%	349,161,103	51,177,694	682%
15580	140	Scottsdale Ind Co	OH		469,730	469,730	0.01%	17,426,269	76,825	22683%
23043	111	Liberty Mut Ins Co	MA	1,203	468,503	469,706	0.01%	11,886,831,983	2,289,668,717	519%
16691	84	Great Amer Ins Co	OH	135	453,828	453,963	0.01%	1,345,063,854	366,892,866	367%
13331	291	American Hardware Mut Ins Co	OH		453,864	453,864	0.01%	130,036,132	12,987,165	1001%
24414	796	General Cas Co Of WI	WI		440,558	440,558	0.01%	744,623,742	95,193,660	782%
27502		Western General Ins Co	CA	430,692		430,692	0.01%	31,693,585	6,701,805	473%
20796	12	AIG Premier Ins Co	PA	430,417		430,417	0.01%	162,142,627	21,593,601	751%
35505	457	Rockwood Cas Ins Co	PA		420,937	420,937	0.01%	74,313,422	9,907,216	750%
37257	796	Praetorian Ins Co	IL		407,307	407,307	0.01%	461,022,235	93,775,394	492%
42587	140	Depositors Ins Co	IA		404,215	404,215	0.01%	47,170,749	182,673	25823%
24139	150	Old Republic Gen Ins Corp	IL		375,939	375,939	0.01%	275,018,317	39,454,238	697%
28932	785	Markel Amer Ins Co	VA	316,231	56,460	372,691	0.01%	104,451,172	23,365,814	447%
20621	1129	OneBeacon Amer Ins Co	MA		366,561	366,561	0.01%	433,056,039	55,201,093	785%
40100	447	Firstline Natl Ins Co	MD		364,598	364,598	0.01%	28,964,080	2,814,556	1029%
13978	349	Florists Mut Ins Co	IL		361,880	361,880	0.01%	56,357,807	6,652,782	847%
24791	3548	St Paul Mercury Ins Co	MN		350,354	350,354	0.01%	59,362,805	12,449,113	477%
37303	796	Redland Ins Co	NJ		347,445	347,445	0.01%	62,757,524	8,601,719	730%
21105	158	North River Ins Co	NJ		343,453	343,453	0.01%	453,759,094	61,615,426	736%
33600	111	LM Ins Corp	IA		327,489	327,489	0.01%	19,728,055	3,291,906	599%
19690	163	American Economy Ins Co	IN		323,111	323,111	0.01%	400,334,027	69,011,838	580%
38970	785	Markel Ins Co	IL		301,305	301,305	0.01%	111,520,765	41,452,820	269%
41459		Armed Forces Ins Exch	KS	295,751		295,751	0.01%	73,164,590	9,043,946	809%
14982	125	Penn Millers Ins Co	PA		293,709	293,709	0.01%	50,794,691	8,208,916	619%
18023	748	Star Ins Co	MI		291,615	291,615	0.01%	188,380,573	34,419,020	547%
25054	158	Hudson Ins Co	DE		276,659	276,659	0.01%	120,103,405	29,325,596	410%
20648	1129	Employers Fire Ins Co	MA		266,125	266,125	0.01%	58,689,572	3,301,007	1778%
11118		Federated Rural Electric Ins Exch	KS		264,720	264,720	0.01%	97,608,042	16,035,315	609%
21121	626	Westchester Fire Ins Co	NY		253,500	253,500	0.01%	802,932,520	169,207,880	475%
28304	7	Federated Serv Ins Co	MN		241,732	241,732	0.01%	121,653,907	12,239,151	994%
15709		Southern States Ins Exch	VA		236,289	236,289	0.01%	15,500,000	1,565,233	990%
10915	215	Unitrin Direct Property & Cas Co	IL	233,661		233,661	0.01%	14,374,736	2,034,726	706%
28886	225	Transguard Ins Co Of Amer Inc	IL		229,416	229,416	0.01%	81,046,345	11,960,703	678%
10235	587	American Southern Ins Co	KS		219,685	219,685	0.01%	38,213,126	4,840,395	789%
42307	510	Navigators Ins Co	NY		202,362	202,362	0.00%	578,667,836	98,767,844	586%
23817	12	Illinois Natl Ins Co	IL		189,539	189,539	0.00%	57,246,317	324,135	17661%
24775	3548	St Paul Guardian Ins Co	MN		184,470	184,470	0.00%	25,942,697	3,133,149	828%
20702	626	Ace Fire Underwriters Ins Co	PA		175,433	175,433	0.00%	58,024,177	1,211,412	4790%
29874	181	North Amer Specialty Ins Co	NH		169,883	169,883	0.00%	243,537,378	13,014,649	1871%
19860	457	Argonaut Great Central Ins Co	IL		166,865	166,865	0.00%	78,164,939	437,709	17858%

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
11126	3219	Sompo Japan Ins Co of Amer	NY		162,290	162,290	0.00%	349,847,617	29,147,575	1200%
39098	3678	Omni Ins Co	IL	161,343		161,343	0.00%	75,343,486	12,521,125	602%
21857	761	American Ins Co	OH		152,301	152,301	0.00%	656,412,840	72,658,892	903%
10051	17	Lyndon Southern Ins Co	LA	151,802		151,802	0.00%	10,047,280	3,951,092	254%
19305	212	Assurance Co Of Amer	NY		150,479	150,479	0.00%	19,655,616	1,848,584	1063%
31348	158	Crum & Forster Ind Co	DE		148,647	148,647	0.00%	12,559,051	2,060,142	610%
26220	12	Yosemite Ins Co	IN	141,713		141,713	0.00%	465,293,642	7,773,179	5986%
23728	79	National Gen Ins Co	MO	139,866		139,866	0.00%	41,802,824	2,485,189	1682%
42579	140	Allied Prop & Cas Ins Co	IA		129,466	129,466	0.00%	92,728,726	1,599,772	5796%
42552	4257	Nova Cas Co	NY		121,537	121,537	0.00%	65,559,714	8,126,079	807%
19895	24	Atlantic Mut Ins Co	NY	120,101		120,101	0.00%	39,324,176	38,609,884	102%
21865	761	Associated Ind Corp	CA		117,033	117,033	0.00%	71,836,172	6,379,400	1126%
11371	150	Great West Cas Co	NE		112,712	112,712	0.00%	473,035,777	65,310,605	724%
40045	98	Starnet Ins Co	DE		104,294	104,294	0.00%	105,869,122	2,259,342	4686%
13854		Farmers Mut Fire Ins Co of Salem Cn	NJ		103,796	103,796	0.00%	31,382,905	4,431,842	708%
43974	12	AIG Ind Ins Co	PA	103,044		103,044	0.00%	29,254,040	2,490,811	1174%
21881	761	National Surety Corp	IL		102,527	102,527	0.00%	218,981,950	24,843,235	881%
24112	228	Westfield Ins Co	OH		98,821	98,821	0.00%	727,274,872	103,729,331	701%
22136	84	Great Amer Ins Co of NY	NY		95,235	95,235	0.00%	56,958,388	403,433	14118%
19372	212	Northern Ins Co Of NY	NY		85,865	85,865	0.00%	29,393,702	2,538,864	1158%
26905		Century Natl Ins Co	CA		84,513	84,513	0.00%	255,870,134	20,076,928	1274%
27855	212	Zurich American Ins Co Of IL	IL		81,057	81,057	0.00%	43,797,814	8,423,182	520%
31325	98	Acadia Ins Co	NH		77,470	77,470	0.00%	58,225,924	565,358	10299%
24449	796	Regent Ins Co	WI		73,131	73,131	0.00%	85,610,716	11,217,586	763%
29700	181	North Amer Elite Ins Co	NH		72,548	72,548	0.00%	33,447,269	219,419	15244%
36684	98	Riverport Ins Co	MN		71,336	71,336	0.00%	35,406,761	4,157,971	852%
21415	62	Employers Mut Cas Co	IA		68,007	68,007	0.00%	897,074,566	140,760,881	637%
43575	626	Indemnity Ins Co Of North Amer	PA		65,093	65,093	0.00%	107,447,265	15,269,822	704%
25224	98	Great Divide Ins Co	ND		62,528	62,528	0.00%	66,013,703	3,077,825	2145%
39306	212	Fidelity & Deposit Co Of MD	MD		60,914	60,914	0.00%	200,598,641	8,058,955	2489%
43699	212	American Federation Ins Co	FL	58,691		58,691	0.00%	14,530,626	29,234	49705%
19615	19	American Reliable Ins Co	AZ	43,316	14,183	57,499	0.00%	104,540,394	22,482,070	465%
13714	775	Pharmacists Mut Ins Co	IA	20,536	36,035	56,571	0.00%	68,595,556	7,923,061	866%
22551	2978	Mitsui Sumitomo Ins USA Inc	NY		54,615	54,615	0.00%	50,898,115	5,120,337	994%
11800	212	Foremost Prop & Cas Ins Co	MI	53,910		53,910	0.00%	15,441,567	36,992	41743%
10120	1120	Everest Natl Ins Co	DE		53,233	53,233	0.00%	178,637,455	13,136,581	1360%
20362	2978	Mitsui Sumitomo Ins Co of Amer	NY		53,032	53,032	0.00%	214,068,790	35,835,271	597%
14265	246	Indiana Lumbermens Mut Ins Co	IN		52,927	52,927	0.00%	48,555,778	7,741,898	627%
11177	479	First Fin Ins Co	IL		52,330	52,330	0.00%	284,789,575	82,925,299	343%
21458	111	Employers Ins of Wausau	WI		51,686	51,686	0.00%	1,298,411,970	251,726,253	516%
12866		T.H.E. Ins Co	LA		50,542	50,542	0.00%	54,577,982	10,136,426	538%
19909	24	Centennial Ins Co	NY	48,826		48,826	0.00%	15,154,756	10,092,431	150%
31240		Commonwealth Mut Ins Co of Amer	MD		44,691	44,691	0.00%	583,135	364,235	160%
10936	158	Seneca Ins Co Inc	NY		39,559	39,559	0.00%	127,722,571	13,591,781	940%
22187	222	Greater NY Mut Ins Co	NY		39,510	39,510	0.00%	324,472,363	33,311,719	974%
10749		Intrepid Ins Co	MI		37,086	37,086	0.00%	24,823,005	2,667,161	931%
27154	1129	Atlantic Specialty Ins Co	NY		31,872	31,872	0.00%	50,830,519	1,252,998	4057%
34789	12	AIG Centennial Ins Co	PA	30,855		30,855	0.00%	335,024,523	60,707,110	552%
40843	212	Universal Underwriters Of TX Ins	TX		30,357	30,357	0.00%	8,989,907	126,929	7083%
36897	767	Manufacturers Alliance Ins Co	PA		29,088	29,088	0.00%	60,053,331	6,297,712	954%
10448	54	Cumberland Ins Co Inc	NJ		28,456	28,456	0.00%	20,131,206	5,059,066	398%

**Maryland Licensed Property and Casualty Insurers'
Direct Written Auto Premium and RBC Information
as of December 31, 2007**

NAIC Number	Group Code	Company Name	State of Dom	Private Pass. Total	Commer cial Total	Total Direct Written Premium	% of MD Market	Total Adjusted Capital	Authorized Control Level RBC	RBC Ratio
35386	3548	Fidelity & Guar Ins Co	IA		26,338	26,338	0.00%	19,286,340	117,073	16474%
36234		Preferred Professional Ins Co	NE		25,426	25,426	0.00%	118,642,174	16,031,505	740%
26050	1234	Response Worldwide Ins Co	CT	24,760		24,760	0.00%	22,210,517	6,543,232	339%
22608	93	National Specialty Ins Co	TX		21,827	21,827	0.00%	15,397,020	1,934,987	796%
19224	3548	St Paul Protective Ins Co	IL		21,762	21,762	0.00%	232,343,369	18,688,609	1243%
20699	626	Ace Prop & Cas Ins Co	PA		18,619	18,619	0.00%	1,777,085,678	383,049,487	464%
37907	8	Deerbrook Ins Co	IL	16,944		16,944	0.00%	21,003,660	78,346	26809%
42889	140	Victoria Fire & Cas Co	OH	16,109		16,109	0.00%	42,394,769	8,105,730	523%
20052	31	National Liab & Fire Ins Co	CT		12,142	12,142	0.00%	629,168,255	50,268,270	1252%
37885	1285	XL Specialty Ins Co	DE		11,763	11,763	0.00%	137,212,522	27,067,527	507%
37850	2898	Pacific Specialty Ins Co	CA	10,426		10,426	0.00%	137,104,849	9,569,232	1433%
19488	124	Amerisure Ins Co	MI		9,638	9,638	0.00%	166,796,449	24,580,117	679%
42978	19	American Security Ins Co	DE	8,358		8,358	0.00%	715,785,160	107,306,914	667%
22977	108	Lumbermens Mut Cas Co	IL		6,593	6,593	0.00%	150,664,386	165,333,453	91%
14532	50	Middlesex Mut Assur Co	CT		6,438	6,438	0.00%	70,655,599	8,199,336	862%
33898	313	Aegis Security Ins Co	PA	5,815		5,815	0.00%	38,876,344	6,002,955	648%
20532	517	Clarendon Natl Ins Co	NJ		5,212	5,212	0.00%	439,776,292	130,272,125	338%
25879	3548	Fidelity & Guar Ins Underwriters Inc	WI		4,389	4,389	0.00%	32,572,442	3,153,339	1033%
23418	84	Mid Continent Cas Co	OK		4,127	4,127	0.00%	331,581,482	53,074,485	625%
35408	4381	Delos Ins Co	DE		4,102	4,102	0.00%	207,761,332	23,546,159	882%
11024	222	Strathmore Ins Co	NY		4,065	4,065	0.00%	17,848,961	1,628,689	1096%
14575		Millers Capital Ins Co	PA		3,558	3,558	0.00%	44,895,768	5,990,807	749%
23396	124	Amerisure Mut Ins Co	MI		2,781	2,781	0.00%	594,760,470	89,098,633	668%
25887	3548	US Fidelity & Guaranty Co	MD		2,428	2,428	0.00%	1,928,503,054	148,384,027	1300%
22837	761	Interstate Ind Co	IL		2,156	2,156	0.00%	71,813,510	4,977,272	1443%
29580	98	Berkley Regional Ins Co	DE		1,978	1,978	0.00%	654,230,048	125,143,309	523%
26832	84	Great Amer Alliance Ins Co	OH		1,977	1,977	0.00%	26,450,121	125,148	21135%
22918	108	American Motorists Ins Co	IL		1,722	1,722	0.00%	23,201,091	119,938	19344%
34347	212	Colonial Amer Cas & Surety Co	MD		1,701	1,701	0.00%	24,404,847	367,319	6644%
18538		Bancinsure Inc	OK		1,523	1,523	0.00%	45,090,358	6,379,951	707%
21962	1129	Pennsylvania General Ins Co	PA	1,102		1,102	0.00%	190,142,582	23,388,683	813%
13838	140	Farmland Mut Ins Co	IA		1,052	1,052	0.00%	151,121,994	15,769,829	958%
40258	12	American Intl S Ins Co	PA		853	853	0.00%	36,832,002	167,107	22041%
22195	222	Insurance Co Of Greater NY	NY		399	399	0.00%	43,913,685	3,257,663	1348%
27073		Nipponkoa Ins Co Ltd US Br	NY		274	274	0.00%	66,104,236	10,417,884	635%
41998	127	American Southern Home Ins Co	FL	256		256	0.00%	24,277,208	4,692,110	517%
30562	108	American Manufacturers Mut Ins Co	IL	(8)	214	206	0.00%	10,881,261	34,478	31560%
21652	212	Farmers Ins Exch	CA		132	132	0.00%	3,446,738,483	1,021,103,418	338%
27740	1141	North Pointe Ins Co	MI		100	100	0.00%	38,555,085	7,980,412	483%
24678	553	Arrowood Ind Co	DE	68	(7)	61	0.00%	445,627,238	221,311,123	201%
21970	1129	OneBeacon Ins Co	PA	(501)		(501)	0.00%	1,639,875,278	240,205,329	683%
22861	796	Southern Pilot Ins Co	WI		(2,290)	(2,290)	0.00%	21,759,052	53,274	40844%
27928		Amex Assur Co	IL	(6,587)		(6,587)	0.00%	145,668,760	10,506,983	1386%
24899		Alea North America Ins Co	NY		(8,257)	(8,257)	0.00%	164,220,249	20,381,549	806%
24376	12	American Gen Ind Co	IL		(10,871)	(10,871)	0.00%	38,796,447	1,047,940	3702%
35769	458	Lyndon Prop Ins Co	MO	(22,086)		(22,086)	0.00%	144,512,601	15,549,455	929%
40142	212	American Zurich Ins Co	IL		(232,395)	(232,395)	-0.01%	178,246,420	45,021,922	396%
		Total				4,205,527,784				



making progress . . . together

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

EXECUTIVE HEADQUARTERS

2301 MCGEE STREET
SUITE 800
KANSAS CITY MO
64108-2662
VOICE 816-842-3600
FAX 816-783-8175

To: Commissioner Diane Koken, Immediate Past President
National Association of Insurance Commissioners
From: John Purple, Chair
Casualty Actuarial (C) Task Force
Re: Study of the Center for Justice & Democracy's Medical Malpractice Report
Date: December 19, 2005

FEDERAL AND INTERNATIONAL RELATIONS

HALL OF THE STATES
444 NORTH CAPITOL ST NW
SUITE 701
WASHINGTON DC
20001-1509
VOICE 202-624-7790
FAX 202-624-8579

Per your request, the Casualty Actuarial (C) Task Force (CATF) has reviewed the report, Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry, by Jay Angoff and published by the Center for Justice & Democracy (CJD report). While the CATF often reviews and discusses various published studies that relate to property/casualty actuarial issues, we do not typically produce written documentation of our analyses. However, in consideration of your request we have reviewed this report. We have found serious methodological flaws in the CJD report that we believe should be documented. Because these flaws are not unique to the CJD report and because we don't want to establish a precedent for responding to each controversial report, we thought the best approach would be to describe the flaws in a more general manner so that our analysis has applicability to other cases where the same or similar mistakes are made.

SECURITIES VALUATION OFFICE

48 WALL STREET
6TH FLOOR
NEW YORK NY
10005-2906
VOICE 212-398-9000
FAX 212-382-4207

Our analysis reflects our role both as regulators and as actuaries trained in financial analysis of insurance companies. With that perspective, we have analyzed the techniques used in the CJD report and conclude that the study's methodology is subject to three common flaws. What follows is a discussion of these three flaws, beginning with an overview of each flaw and then addressing how each flaw is present in the CJD report. In a fourth section, we discuss an NAIC initiative regarding medical malpractice data.

1. Studies can choose a database designed for one specific purpose and inappropriately use it for another purpose.

Risk-Based Capital (RBC) standards have been painstakingly developed by the NAIC to identify companies that may be at financial risk. The RBC standards impose increasingly severe levels of regulatory action on companies that fall below the Company Action Level threshold, but these standards are not intended to suggest in any form or fashion that companies with RBC above the Company Action Level have excess capital. Indeed, higher levels of surplus are expected, especially for companies that are growing or that have potentially volatile claim emergence, such as medical malpractice insurers.

WORLD WIDE WEB

www.naic.org

This point is well understood by insurance regulators, but often not so well understood by others. A misuse of RBC standards illustrated by the CJD report is to suggest that higher levels of RBC indicate that rates are too high. More specifically, the CJD report describes RBC at the Company Action level as the amount the NAIC "deems adequate" and characterizes surplus generally as an "extra cushion". These are serious mischaracterizations of Risk-Based Capital levels that are, in fact, the minimum capital levels allowed before state insurance commissioners are required to take action. The financial statements and RBC were designed by the NAIC, including the CATF, to evaluate the financial solvency of individual insurers and should not be used for other purposes.

2. Studies can be biased in the selection of the data analyzed presenting incomplete data as though it were complete.

Many studies have the common flaw of selection bias. This flaw includes using only a small sample, limiting the time period, varying the time period within the study, and using a limited number of variables.

First, the CJD report fails to recognize the volatility in the marketplace during the time period involved and as a result omits important insurers in the medical malpractice insurance market. Fifteen insurers currently in the market are analyzed, but insurers that have left the market, such as the St. Paul Companies, MIIX, and Phico, are not. Claims under policies issued by these insurers are still being paid, but they are not currently writing, or earning, premium. These claim payments are not reflected in the study. Furthermore, premiums from doctors previously insured by the departed carriers, are now included with the current insurers, thus overstating the implied increase in prices. The study also omits data for MLMIC, one of the largest medical malpractice insurers in the country.

Second, a common flaw with respect to small samples is the use of a limited number of years of paid losses in discussing trends. In the case of limited samples, the problem is that using only a few years of data can be misleading as to longer-term trends. The CJD report illustrates this flaw by using only five years of medical malpractice experience.

Third, the CJD report does not address the full range of costs involved in providing medical malpractice insurance. Loss Adjustment Expense (LAE) is particularly high for this line of business since defense costs are a primary benefit of the policies. According to industry statistics from Best's Aggregates & Averages, LAE costs account for approximately 36% of the premium. In addition, underwriting expenses such as those for commissions, general overhead, and state taxes account for another 18% of premium. Investment income can also supply significant funding to pay losses and expenses. It is inappropriate for the report to conclude in the last sentence of page 20 that "[d]octors are therefore paying more for malpractice coverage than either actual payments in malpractice cases or estimated future payments in malpractice cases would justify" without considering the other components of costs associated with the coverage provided.

Fourth, the CJD report uses five years of data for some measures, but fewer for others. For example, surplus is analyzed for twelve mono-line medical malpractice insurers. The report shows that surplus increased by 34% from 2002 to 2004. However, looking at five years of surplus for these insurers shows that surplus decreased by 13% from 2000 to 2002, after which it rose. Over five years, surplus for these insurers has increased by 17%.

3. Studies can compare data sets that aren't compatible and draw inaccurate conclusions.

Medical malpractice is a "long tail" line of insurance, meaning that claims typically take years to mature. In such lines, it is highly misleading to compare premiums collected in one year to claims payments in that year. Premiums collected today cover claims that occur or are reported over the next year, but for which payments will be made over many years. If the volume of exposure to loss is generally rising over time, this mismatch will result in a significant downward bias in the ratio of paid loss to written premium. If the volume of exposure is generally declining, a significant upward bias will result. Similarly, claims payments in any given year will include payments for claims from multiple prior years. If premium written today is compared with claim payments made today, a timing mismatch results. The usefulness of a paid loss to written premium ratio, as used in the CJD report, falls far short of other, more meaningful measures such as the ratio of incurred loss and loss adjustment expense to earned premium, the combined ratio, and the operating ratio.

4. A problem specific to medical malpractice studies is that no detailed comprehensive database is available that adequately captures the underlying dynamics of this market.

The NAIC has recognized the data shortcomings in the evaluation of some of the issues currently being debated concerning the problems with medical malpractice insurance. To this end, the Statistical Information (C) Task Force received the following charge from the NAIC's Property and Casualty Insurance (C) Committee:

Identify the types of data that are necessary to properly evaluate the medical liability insurance market, including the frequency, severity, and causes of loss in order to evaluate regulatory and legislative

proposals. Identify the sources of this data and the steps necessary to capture it, including changes needed in the NAIC Statistical Handbook of Data Available to Insurance Regulators, and the need to develop closed claim databases, open claim databases, or other appropriate means of capturing the necessary information.

The CATF appreciates this opportunity to comment both generally on common methodological flaws and specifically on how those flaws are present in the CJD report. Given these flaws, we do not believe that the CJD report can be used to draw credible conclusions about increasing medical malpractice premiums. We also hope that our analysis has provided a useful framework for the NAIC members to use in evaluating the many other past and future studies about insurance rates and profitability.

Cc: Kris DeFrain, NAIC

w:\Mar06\TF\Casualty Actuarial\CJD Med Mal Study_Final.doc



REGULATORY GUIDANCE ON THE MISUSE OF RBC IN RATEMAKING

Adopted by the NAIC's Casualty Actuarial and Statistical Task Force
August 12, 2008

The Casualty Actuarial and Statistical Task Force wishes to re-emphasize its previous statements that capital levels indicated by the Risk-Based Capital (RBC) formula should not be used as, or assumed to be, measures of adequate capital. This would be an erroneous and therefore inappropriate use.

There seems to be a common and persistent misconception that the upper end of the Company Action Level, that is, the capital level that is 200% of a company's Authorized Control Level Risk-Based Capital requirement published in the Annual Statement, is somehow a measure of "adequate" capital. The logic of this appears to be that since, in most cases, no regulatory action is triggered under the Risk-Based Capital Model Law when an insurer's policyholders' surplus exceeds this amount, that this amount is considered by the NAIC to be the lowest level that is still "adequate". This misconception appears to be surfacing most commonly in a rate regulation context, where this surplus level (200% of Authorized Control Level) is frequently misconstrued as an "adequate" surplus level that can be used to establish limits on permitted profit levels, surplus accumulation, or leverage ratios.

It is appropriate to think of the capital level of 200% of the Authorized Control Level RBC requirement as the minimum capitalization level above which an insurer can operate without regulatory intervention (unless it is triggered by the Trend Test) as defined in the RBC Model Law. Below this level, regulatory intervention is explicitly authorized under the RBC statute. It cannot reasonably be concluded, however, that this minimum level of capital is "adequate", because a very small decline in surplus could be enough to trigger regulatory intervention. There is no evidence that companies that are consistently operating at or near this surplus level are sound or that consumers would be well served by having this level as a regulatory goal. In fact, it would seem logical, in theory, that an adequate level of surplus would be one that would ensure that there would be a very low probability of insurer insolvency, and a relatively low probability that an adverse event or events could result in a reduction in a company's surplus to a level that would put it in an RBC action level.

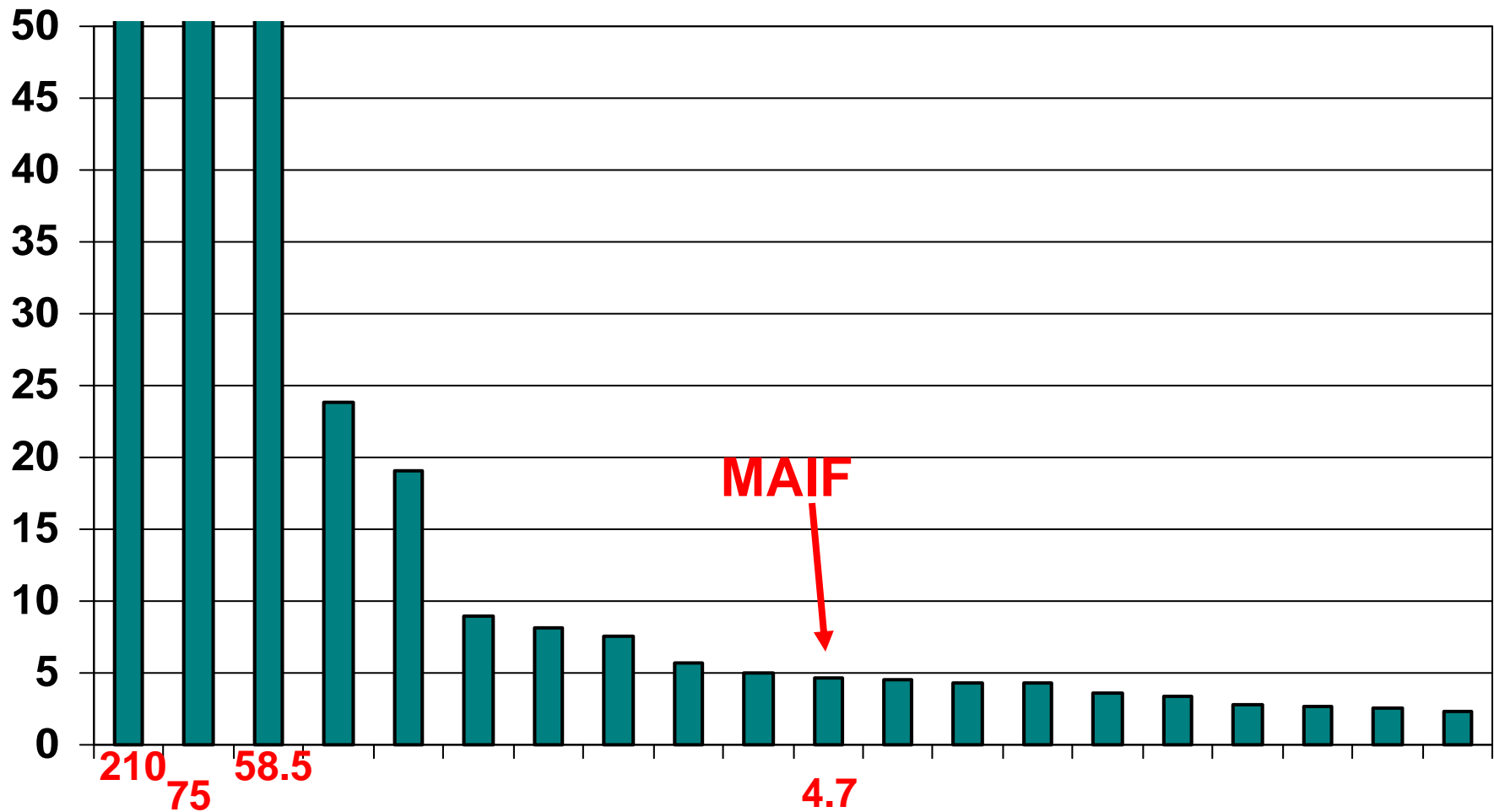
The drafters of the original Property-Casualty Risk-Based Capital Formula shared this perspective. In June 1993 the NAIC Property/Casualty Risk-Based Capital Working Group exposed for comment a proposed RBC formula. At that time the Working Group stated that: "The primary objective of the NAIC's Risk-Based Capital initiative is to raise the safety net that statutory surplus provides for policyholder obligations. The formula will not compute, nor was it designed to compute, the precise amount of capital a property/casualty insurer needs to operate in a competitive, dynamic and uncertain marketplace. ... Accordingly, insurers will generally maintain capital well above the requirements established by this formula." The Working Group goes on to also say: "Since the formula is intended to identify insurers that require regulatory attention and does not purport to compute a target level of capital, the Working Group does not believe the results of this formula should be used in setting or reviewing premium rates or in determining the rate of return for an insurer."

To our knowledge the NAIC has never attempted to define what a theoretically adequate or optimum level of capitalization would be for an insurance company, nor has it attempted to establish financial strength ratings for companies. The RBC formula and model law were devised for the sole purpose of establishing risk-based, company-specific minimum capital requirements that specify the point at which regulatory intervention is necessary and provide statutory authority for such intervention based solely on the insurer's capital level relative to the standard. The RBC formula and statute were never intended to serve any purpose other than solvency regulation, as has been so clearly stated in the 1993 quotation above. Risk-Based Capital was originally, and continues to be, a minimum capital standard. The task of evaluating the optimum capitalization of insurers is separate and distinct from the task of evaluating minimum capital standards for solvency regulation.

EXECUTIVE HEADQUARTERS	2001 McGraw Street, Suite 800	Kansas City, MO 64106-2062	ph 816 862 3600	fx 816 793 8175
GOVERNMENT RELATIONS	444 N. Capital Street, 8th Floor	Washington, DC 20001-1509	ph 202 471 3550	fx 202 471 3572
SECURITIES VALUATION OFFICE	40 Wall Street, 6th Floor	New York, NY 10005-2506	ph 212 398 9000	fx 212 398 4207

Ratio of Surplus to Control Levels

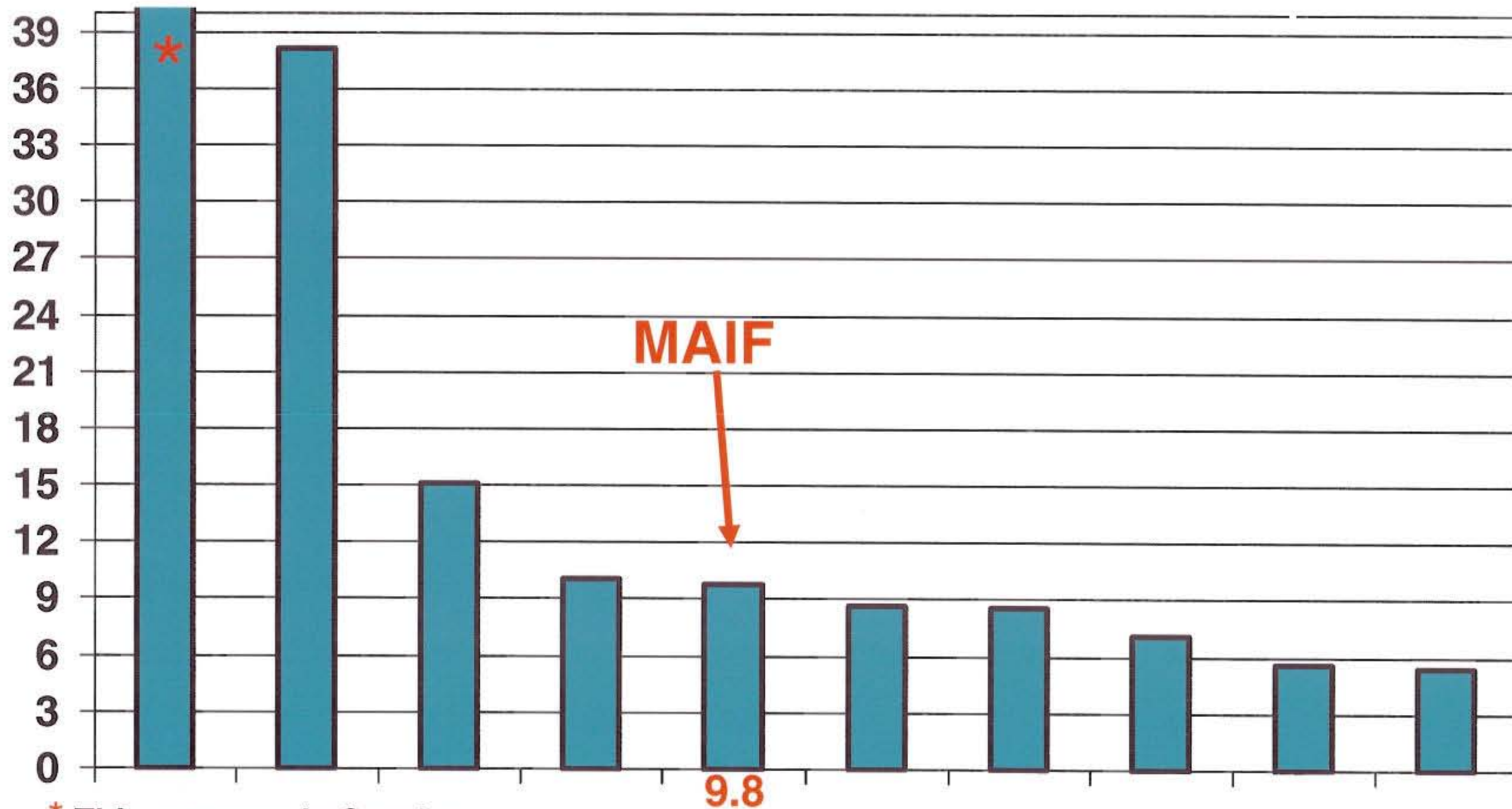
Top Twenty Insurance Companies in Maryland by Market Share



Appendix C

Ratio of Surplus to RBC Authorized Control Levels

Top Ten Insurance Companies in Maryland by Market Share



* This company's Surplus to ACL ratio is 117.

APPENDIX D