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Auto insurance industry decries state rate-cut plan

By Gadi Dechter

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The private auto insurance industry objected yesterday to a rate-lowering proposal from the state's insurer of last resort, arguing that the Maryland Automobile Insurance Fund's plan to make coverage more affordable puts the private sector at unacceptable risk.

After a 2 1/2-hour hearing in Baltimore, insurance Commissioner Ralph S. Tyler delayed his decision to give both sides more time to provide written information, according to officials with the Maryland Insurance Administration. Tyler's decision is expected within several weeks.

MAIF is a state-controlled fund created to provide auto insurance to drivers who have been rejected by private-sector companies. Executive Director M. Kent Krabbe said MAIF wants to reduce its rates by an average of about \$120 per policy in order to make insurance more affordable during a period of rising gasoline and food prices. The average MAIF policy is about \$2,400 a year.

"What we find is that most of the people that come to us are working families," Krabbe said in an interview after yesterday's hearing. "We insure people who are struggling and to the extent that we can help out, we want to."

Richard Stokes, a regional manager with the Property Casualty Insurers Association of America, said the private industry believes that MAIF's discount is "actuarially unsound" and could put the state fund at risk for insolvency.

Though MAIF was created by the General Assembly in 1972 after making auto insurance compulsory in the state, private insurers would have to bail out the fund in the event of major financial problems. The state fund provides more than 65,000 insurance policies and wrote about \$120 million in premiums in 2007.

Krabbe dismissed the suggestion that MAIF's proposed discount - which would reduce premiums by less than \$6 million a year - puts the fund at risk. The state fund currently has a \$170 million surplus.

"We would have to lose \$140 million in order to be in a position of insolvency," Krabbe said. "That's like saying nuclear war has broken out and life on earth has ended as we know it. That's just not going to happen."

Some private insurers are also worried about competition from MAIF if it discounts rates. Hal S. Katz, president of Baltimore-based Interstate Auto Insurance Co., which specializes in covering drivers with blemished records, said the state doesn't adequately enforce its requirement that MAIF only provide coverage to drivers who have been rejected by two private companies.

"Would you want a state-operated entity to all of a sudden be a major competitor in the marketplace?" Katz said. "If there was enforcement ... I would probably have never lodged the protest."

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