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Report on the Status of Online Premium Tax Collection and the Timeliness of Review of Property & Casualty Form Filings During Fiscal Year 2017

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Submitted to the
Senate Finance Committee, House Economic
Matters Committee, and the Department of
Legislative Services by the
Maryland Insurance Administration

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I. INTRODUCTION

House Bill 116 (Chapter 66 of the Laws of Maryland of 2017) provides that the Maryland Insurance Administration shall submit to the Senate Finance Committee, the House Economic Matters Committee, and the Department of Legislative Services, in accordance with § 2-1246 of the State Government Article, a report:

(1) on the status and effectiveness of premium tax collections by the Administration using an online premium tax collection system that is due 18 months after the system is operational; and

(2) on the timeliness of the review of property and casualty form filings during fiscal 2017 that includes the number of form filings reviewed and the percentage of form filings reviewed within 30 days and is due on or before October 1, 2017.

II. STATUS AND EFFECTIVENESS OF ONLINE PREMIUM TAX COLLECTIONS BY THE ADMINISTRATION

There are no findings to report concerning the status and effectiveness of an online premium tax collection system at this time. This report is due 18 months after the online premium tax collection system is operational. The Administration is in the process of developing an online operational system and will report on its progress as required.

III. THE TIMELINESS OF THE REVIEW OF PROPERTY AND CASUALTY FORM FILINGS DURING FISCAL YEAR 2017

A. SUMMARY

In fiscal year (“FY”) 2017, licensees of the Maryland Insurance Administration (“Administration”) filed a total of 21,319 individual forms for review by the Property & Casualty Rates and Forms unit (“the Unit”). The Unit completed the review of 32.2% of these form filings within thirty (30) working days.¹ For the reasons outlined below, the Administration anticipates substantial improvements in the timeliness of form review during the next two (2) Fiscal Years.

B. BACKGROUND

Licensees of the Administration authorized to issue Property & Casualty insurance policies in the admitted market for risks located in Maryland must file all policy forms with the Unit for approval prior to use.² A filing submitted by a licensee may contain a single form, such as a declarations page or a policy endorsement; or, a filing may be for a new program or update an existing program and include dozens of forms. The number of forms contained in a filing is a prominent factor in determining how long it will take to complete each filing review.

¹ Note: Although HB 116, Ch. 66, Acts of 2017 refers to form review within “30 days,” the relevant statute (Insurance Article, § 11-206(g)(1)) establishes an initial review period of “30 working days” that can be followed, by written notice to the filer, by an additional “30 working days” if needed to complete the review.

² Note: Non-admitted “surplus lines” insurers are not required to file forms with the Administration.

The Unit tracks both the number of form filings received and the number of individual forms contained within those filings. For example, in FY 2017, there were 2,954 form filings received with a total of 21,319 individual forms contained therein. In FY 2016, there were 3,832 form filings received with a total of 25,903 forms included. The Unit's projections for FY 2018 and FY 2019 for the number of individual forms received based on a rolling five (5) year average is 23,129 and 23,861 respectively.

Filings are made electronically via the System for Electronic Rate and Form Filing ("SERFF").³ Section 11-206(g) of the Insurance Article, Annotated Code of Maryland, states that a filing may not take effect until thirty (30) working days after submission (or sixty (60) working days if the Commissioner has extended the waiting period). A filing is deemed approved unless disapproved by the Commissioner during the waiting period (or the extended waiting period if applicable).⁴

Licenses have a strong preference for the Unit to complete the filing review and issue a disposition prior to use to avoid implementation pursuant to the law's deemer provision. The Administration strives to complete form filing reviews within the waiting period.

C. HISTORICAL CONTEXT

In FY 2015 the Unit completed 42% of its form filing reviews within 30 days. Although not optimal, this represented a substantial increase from FY 2014 (16.5%) and FY 2013 (6.7%). In FY 2016 the Unit experienced staffing and processing issues and reviewed only 30.8% of form filings within 30 working days.

Staff:

The review of Property & Casualty filings is a highly specialized niche, and it is difficult to find experienced candidates. It can take up to three (3) years to train an individual to function independently as a form review analyst. During the course of FYs 2014, 2015 and 2016, the Unit lost key staff to both private industry and retirement. The Unit returned to a full staff of ten (10) employees during FY 2017. Notwithstanding the limited tenure of some team members, the form review program has developed significantly in the second half of FY 2017, and is expected to result in substantial increases in the percentage of form filings reviewed within thirty (30) working days going forward, as further described below.

Process:

Prior to FY 2016, the forms review process included an unnecessary multi-layered review and approval process. This resulted in a dramatic increase in the processing time from filing through disposition of all filings, including form filings. As a result of this process, form filings were held until after the completion of related rate and rule filings resulting in extremely low review completion rates within thirty (30) working days.

³ SERFF is the electronic rate and form filing system administered by the National Association of Insurance Commissioners through which licensees transmit filings to the Administration.

⁴ See § 11-206 (g) (3), Insurance Article, Annotated Code of Maryland.

D. MIA ACTIONS

On December 1, 2016, Commissioner Redmer appointed a new Associate Commissioner for Property & Casualty Insurance, Robert Baron. One of the Commissioner's primary objectives was to reduce the age and size of outstanding rate and form filings. To assist in this objective, the Administration hired a consultant to work with the Unit to streamline its processes to improve outcomes. The Unit implemented a multi-faceted approach to this challenge in three (3) phases: information gathering; identifying impact opportunities; and, implementing change. Streamlining the review process and driving decision making down to the analyst level wherever possible has enabled the Unit to dramatically reduce the backlog of all filings and simultaneously reduce the length of time it takes to complete the review of filed forms. **As of September 19, 2017, the total number of pending filings has dropped from a peak of 2,223 on January 1, 2015 to 415. Of the 415 pending filings, 169 are form filings and 68% of the form filings are less than thirty (30) working days old.**

Although FY 2017 saw only a modest 1.4% increase in the number of forms reviewed within thirty (30) working days, the number of form filing reviews completed within sixty (60) working days has risen to 49.5% and the percentage of reviews completed within ninety (90) working days has jumped to 65.9%.

E. FUTURE PROJECTIONS

The Administration projects that review completion rates within thirty (30) working days⁵ will increase to 60% and 75% respectively for FYs 2018 and 2019 and to 80% in FY 2020.

Our licensees have consistently expressed thanks and appreciation for the process improvements implemented since December, 2016. The Administration will continue its efforts to improve the Unit's performance with respect to the timeliness of the completion of form filing reviews, and anticipates significant progress in this arena over the next two (2) fiscal years.

⁵ Or sixty (60) days when the Unit has formally extended the period for a filing.