

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 248

(Chairman, Economic Matters Committee)

(By Request – Departmental – Automobile Insurance Fund)

Economic Matters

**Insurance - Maryland Automobile Insurance Fund - Fund Producer
Commissions**

This departmental bill repeals the provisions specifying the commission percentage that the Maryland Automobile Insurance Fund (MAIF) must pay to a fund producer for policies issued from MAIF. Instead, the bill specifies that the amount of the commission will be in an amount approved by MAIF.

Fiscal Summary

State Effect: The bill would not materially affect the finances or operations of the Maryland Insurance Administration.

MAIF: MAIF could experience decreased costs to the extent it lowers commissions and from administrative savings if producers process policy applications electronically.

Local Effect: None.

Small Business Effect: MAIF has determined that this bill will have minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Generally, MAIF must pay to a fund producer a commission of: (1) 10% of the total premium for private passenger motor vehicle insurance; and (2) up to 10% of the total premium, as determined by MAIF for any other insurance issued by MAIF.

MAIF may not pay a commission on a fully earned basis, if a prospective insured fails to qualify for coverage by MAIF, or if the prospective insured's initial payment is not honored. If a policy issued by MAIF is canceled, MAIF must refund any unearned commissions.

Background: MAIF pays the statutorily mandated 10% commission on private passenger motor vehicle insurance and an 8% commission on other policies. If its statute allowed, MAIF advises that it would pay varying commission rates to encourage use of its Internet-based processing system.

MAIF: MAIF advises that insurance producers' use of its Internet-based processing system could save costs associated with issuing and canceling policies to insureds who would not be eligible for coverage through MAIF. Because MAIF does not have an agency relationship with its insurance producers, it cannot contractually obligate the producers to use the Internet-based system. By reducing the commission on policy applications that do not use the system, MAIF could encourage its producers to use the lower cost system. Any savings could be passed on to policyholders in the form of lower premiums.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Legislative Services

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