

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 872
Finance

(Senator Gladden, *et al.*)

Maryland Automobile Insurance Fund - Financing of Premiums

This bill authorizes the Maryland Automobile Insurance Fund (MAIF) to provide directly or indirectly for the financing of insurance premiums and accept premiums on an installment basis.

Fiscal Summary

State Effect: Any additional filings by MAIF for installment programs or review of any proposed installment fees could be handled with the existing budgeted resources of the Maryland Insurance Administration (MIA). General fund revenues could decrease minimally to the extent MAIF lowers its premiums because of the bill.

MAIF: MAIF's expenditures could increase by approximately \$1.5 million to process monthly installment payments under the bill. MAIF's revenues from installment fees would increase to cover additional expenditures; the magnitude of the increase would depend on the amount of the monthly fee. Any increase in fee revenues would be offset by a decrease in premium revenues.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: MAIF may not provide directly or indirectly for the financing of premiums or accept premiums on an installment basis. A premium owed to MAIF may

be financed by a premium finance company registered with the Maryland Insurance Commissioner.

Background: The finance charge and initial service fee that a premium finance company may assess include all interest, fees, and charges incident to the premium finance agreement and the resulting extension of credit. The allowable finance charge under a premium finance agreement is 1.15% for each 30 days, charged in advance. The finance charge is computed on the amount of the entire premium loan advanced, including taxes and fees, after the insured's down payment, if any, from the insurance contract's date of inception or the premium's due date. The maximum initial service fee permitted is \$20 for actual expenses. The fee is not refundable on cancellation or repayment. In addition, a premium finance company may charge an electronic payment fee of up to \$8 for actual expenses incurred if the insured elects to pay the premium finance company with an electronic payment, including payment by credit card or debit card.

MAIF: MAIF's revenues would increase to the extent its policyholders choose to finance their premiums through MAIF. MAIF advises that approximately 110,400 of its 115,000 policyholders currently finance their premiums through a premium finance company. MAIF further advises that it would charge a fee that roughly equals its cost to implement direct billing. If approximately 70% of MAIF's policyholders who currently use premium finance companies choose to finance their premiums directly through MAIF, MAIF could process approximately 77,300 payments monthly. Some of these payments would be done by electronic fund transfer, but the majority would be paid by check.

MAIF would require additional staff support to process the payments, answer policyholder inquiries, and collect on bad checks. MAIF estimates that it would require an additional staff of 28, including check processors, service representatives, supervisors, computer technicians, and collections personnel, to implement direct billing at a total cost of \$1.2 million in fiscal 2006. In addition, start-up and ongoing operating expenses could be as much as \$319,300 in fiscal 2006, which includes the cost of computers, desks, communications, and postage.

It is assumed that the installment fee that MAIF would charge policyholders would be similar to that charged by other insurers. These fees range between \$4 and \$8 per month but are more typically in the neighborhood of \$5 per month. *For illustrative purposes*, if MAIF charged a \$5 monthly fee to 77,300 policyholders, its revenues would increase by \$4,638,000 annually. To the extent MAIF's fee revenues exceed its additional expenditures, MAIF could lower its premium rates.

State Revenues: MAIF is subject to the 2% premium tax administered by MIA. General fund revenue from the premium tax would decrease to the extent MAIF is able to lower its premiums because of the bill. Any such decrease in revenues cannot be accurately estimated but is assumed to be minimal.

Small Business Effect: Small premium finance companies that finance MAIF insurance premiums could experience a loss of business to the extent MAIF policyholders choose to finance their premiums through MAIF.

Small businesses that purchase insurance through MAIF and currently use premium finance companies could experience savings to the extent MAIF's fees are lower than the fees and interest charged by their premium finance companies.

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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