

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 703
Finance

(Senator Gladden)

Maryland Automobile Insurance Fund - Acceptance of Premiums on Installment Basis

This bill authorizes the Maryland Automobile Insurance Fund (MAIF) to accept premiums on an installment basis.

Fiscal Summary

State Effect: The study required under the bill and any additional filings by MAIF for installment programs 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 minimally to process monthly installment payments under the bill. MAIF's revenues from installment fees would increase correspondingly 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: Potential meaningful.

Analysis

Bill Summary: MAIF may offer to accept premiums on an installment basis on or after October 1, 2006, in the two territories where it charges the highest premium; however,

the number of policies that may be paid on an installment basis may not exceed 20% of the total number of policies in effect for the entire State.

After one year, the Maryland Insurance Commissioner must conduct a study to determine whether accepting premiums on an installment basis has: (1) been beneficial to MAIF policyholders; (2) adversely impaired MAIF's solvency; and (3) affected the viability of the premium finance industry. As soon as reasonably possible after the study, the Commissioner must report on the study's findings.

After 15 months, MAIF may request the Commissioner's approval to offer to accept premiums on an installment basis for any policy issued in the State. The Commissioner must determine whether to approve the request as soon as reasonably possible after the request is made. The Commissioner must hold public hearings in the two territories where MAIF charges the highest premiums to allow consumers, MAIF, and the premium finance industry to comment on the request.

The Commissioner must consider specified information in determining whether to approve the request. A request is deemed approved after 60 working days unless the Commissioner disapproves the request or notifies MAIF that the waiting period is extended for another 30 days.

If the Commissioner approves the request, the Commissioner must require MAIF to phase in the number of policies paid on an installment basis, with no more than an additional 20% of the number of policies each year following the approval. If the Commissioner disapproves, the Commissioner must require MAIF to terminate offering to accept premiums on an installment basis.

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 it has approximately 95,000 policyholders (including both private passenger and commercial policyholders), most of whom currently finance their premiums through a premium finance company. Approximately 33,000 of MAIF's policyholders reside in the two jurisdictions with the highest premiums. Approximately 24,600 reside in Prince George's County, and approximately 8,600 reside in Baltimore City. The bill limits the number of policyholders who could participate to 20% of the total number of policyholders statewide, or approximately 19,000 policyholders based on MAIF's current number of insureds. Some of these payments would be done by electronic fund transfer, but the majority would be paid by check.

MAIF advises that it would require limited, if any, additional staff support to process the payments because existing staff who currently process payments from premium finance companies could be diverted to processing direct payments. The bill's limited scope in the first two years should further limit any need for additional resources.

MAIF further advises that it would charge a fee that roughly equals its cost to implement direct billing. 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 19,000 policyholders, its revenues would increase by \$1,140,000 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: A similar bill, SB 872 of 2005, was heard in the Finance Committee, but no further action was taken.

Cross File: HB 1505 (Delegate Holmes, *et al.*) – Rules and Executive Nominations.

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

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