

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 603

(Senator Pugh, *et al.*)

Finance

Maryland Automobile Insurance Fund - Acceptance of Premiums on Installment Basis

This bill permits the Maryland Automobile Insurance Fund to accept premiums on an installment basis.

Fiscal Summary

State Effect: General fund revenues could decrease minimally to the extent MAIF lowers its premiums because of the bill. Expenditures would not be affected.

Maryland Automobile Insurance Fund Effect: MAIF's nonbudgeted expenditures could increase minimally under the bill as the result of processing monthly installment payments. MAIF's nonbudgeted 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. Increases in fee revenues may be offset by decreases in premium revenues to the extent that MAIF is able to lower its premiums as a result of the bill.

Local Effect: None.

Small Business Effect: Potential 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 Effect: MAIF's nonbudgeted revenues would increase to the extent its policyholders choose to pay premiums on an installment basis. MAIF advises that it has approximately 76,000 policyholders (including both private passenger and commercial policyholders), most of whom currently finance their premiums through a premium finance company. 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 likely be diverted to processing direct payments.

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 15,200 policyholders, its revenues would increase by \$912,000 annually. To the extent MAIF's fee revenues exceed its additional expenditures, MAIF could lower its premium rates. MAIF advises that the bill would save MAIF policyholders between \$200 and \$400 per year.

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. MIA anticipates that MAIF would make one filing subject to the \$125 filing fee as a result of the bill.

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 pay premiums on an installment basis.

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: Similar bills were introduced in 2007, 2006, and 2005. HB 767 of 2007 was heard by the House Economic Matters Committee, but no further action was taken. SB 703 of 2006 received an unfavorable report from the Senate Finance Committee. HB 1505 of 2006 was referred to the House Rules and Executive Nominations Committee but no further action was taken. SB 872 of 2005 was heard in Finance but no further action was taken.

Cross File: HB 32 (Delegate Holmes) – Economic Matters.

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

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