

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 414
Economic Matters

(Delegate Davis)

**Motor Vehicle Insurance - Financing of Premiums or Acceptance of Premiums
on an Installment Basis by Insurer - Prohibited**

This bill prohibits an insurer that issues, sells, or delivers a motor vehicle insurance policy in the State from • providing directly or indirectly for the financing of premiums; or • accepting premiums on an installment basis. Motor vehicle insurance policy premiums could only be financed by a premium finance company registered with the Maryland Insurance Commissioner in accordance with existing State law. The bill also states that if a prospective insured's initial payment to an insurer, insurance producer, or premium finance company is not honored, a policy or endorsement issued in reliance on that payment is void.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Special fund revenues would increase by \$125 for each filing made by an insurer with the Maryland Insurance Administration of an insurance form redesigned according to the bill's requirements. MIA expects to receive approximately 400 such filings in FY 2009, resulting in special fund revenue of \$50,000. MIA indicates that initial enforcement of the bill could be handled with the existing budgeted resources, but that a high volume of complaints related to the bill's prohibition of installment premiums or financing could necessitate increased out-year special fund expenditures for additional personnel.

Local Effect: The bill would not directly affect local finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: “Premium finance agreements” are currently defined by State law as agreements • by which an insured or prospective insured promises to pay a premium finance company the amount advanced or to be advanced under the agreement, together with interest and a service fee, to an insurer or an insurance producer in payment of premiums; and • that contain an assignment of or are otherwise secured by the unearned premium or refund obtainable from the insurer on cancellation of the insurance contract. Persons that engage in the business of entering into or accepting premium finance agreements are classified as “premium finance companies” and must register with the Maryland Insurance Commissioner before engaging in premium financing in the State. A number of entities are exempt from these regulations, however, including banking institutions, industrial finance companies, small loan companies, and other similar organizations, as well as authorized insurers that do not engage in the insurance financing business.

Private insurers in the State are not currently prohibited from accepting installment payments or providing premium financing through affiliated institutions that are not required to register as premium financing companies. Under current State law, insurers that offer installment payment plans may not charge installment fees of more than \$10 per installment. In contrast, State law currently permits registered premium finance companies to charge a variety of fees including nonrefundable service fees, delinquency and collection fees, and cancellation fees, in addition to a 27% maximum APR that is frequently charged.

The Maryland Automobile Insurance Fund is currently prohibited by State law from financing premiums or accepting premiums on an installment basis. Created by the General Assembly in 1972, MAIF provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market.

Small Business Effect: Small business insurers would no longer be able to offer installment plans for payment of insurance premiums, which could increase insurance costs for their customers and negatively affect their volume of business. Staff of such small business insurers who process installment payments may be eliminated.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 24, 2008
ncs/ljm

Analysis by: Alexander M. Rzasa

Direct Inquiries to:
(410) 946-5510
(301) 970-5510