

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 642
(Senator Pugh, *et al.*)
Finance

Insurance - Premium Finance Companies - Premium Finance Agreement Terms - Disclosure and Publication

This bill requires a premium finance company that offers premium financing to Maryland Automobile Insurance Fund (MAIF) applicants for private passenger automobile insurance policies to disclose specified information to the Insurance Commissioner, including the percentage of down payment; the finance charge; the number of installments; any fee imposed including a service fee, late fee, or cancellation fee; and any other terms and conditions required by the Commissioner. Prior to binding coverage for a specified MAIF applicant who intends to finance the premium, a producer must (1) obtain three premium financing offers with the lowest cost and lowest down payment; (2) disclose the lowest offers in writing to the applicant; and (3) require the applicant to sign the disclosure. The bill authorizes a MAIF producer to charge an applicant a maximum \$10 fee for providing the required information.

Fiscal Summary

State Effect: Existing penalty provisions for willful violations are not expected to significantly affect State finances.

MAIF Effect: To the extent insurance producers direct applicants away from MAIF policies to other carriers in order to avoid the disclosure requirements, MAIF's private passenger automobile insurance premium revenues decrease.

Local Effect: Existing penalty provisions for willful violations are not expected to significantly affect local government finances.

Small Business Effect: Potential minimal.

Analysis

Current Law: MAIF may not directly or indirectly finance policy premiums or accept premiums on an installment basis. A premium may only be financed by a premium finance company registered with the Commissioner. Thus, policyholders who are unable to pay their total insurance premium in advance must use the services of a premium finance company. The policyholder enters into a premium finance agreement, where the premium finance company pays the policyholder's total premium to MAIF and the policyholder agrees to repay the loan with finance charges and service fees in installments.

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.

Background: According to the 2009 *Report on the Effect of Competitive Rating on the Insurance Markets in Maryland* prepared by the Maryland Insurance Administration (MIA), MAIF had 6.39% of the private passenger auto insurance market in 2003. As of 2008, MAIF's market share had decreased approximately 55% to 2.85% of the domestic private passenger auto insurance market. MAIF estimates that 98.6% of policyholders elect to purchase the minimum automobile insurance coverage required under law. A majority of MAIF policyholders turn to premium finance companies which typically require an 11% to 15% down payment with 10 additional installment payments.

State Revenues: To the extent producers direct applicants away from MAIF policies to other insurance carriers in order to avoid the bill's disclosure requirements, MAIF's premium revenues decrease. However, general fund revenues remain constant as all insurers offering private passenger automobile insurance policies in the State are subject to the 2% premium tax administered by MIA.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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