

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 644

(Senator Pugh, *et al.*)

Finance

Insurance - Premium Finance Companies - Limitation on Referrals by Insurance Producers

This bill prohibits an insurance producer and specified individuals from steering an insured, with respect to a Maryland Automobile Insurance Fund (MAIF) private passenger automobile insurance policy, into an agreement with a premium finance company in which the insurance producer or specified individual has a beneficial interest or a compensation arrangement. An insurance producer, agent, or employee of an insurance producer who violates the bill is subject to a civil fine of up to \$1,000. In addition, a premium finance company, insurer, or an insurance producer who willfully violates the bill is guilty of an existing misdemeanor penalty and, on conviction, is subject to a fine for up to \$1,000, imprisonment for up to one year, or both.

Fiscal Summary

State Effect: Potential minimal increase in general fund revenues and expenditures due to the bill's civil penalty provisions; existing penalty provisions for willful violations are not expected to significantly affect State finances.

MAIF Effect: Potential decrease in new and renewal private passenger automobile insurance policies written if producer offices that have ownership stakes in premium finance companies direct MAIF applicants to other insurers.

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

Small Business Effect: Potential minimal.

Analysis

Bill Summary: The bill defines “beneficial interest” to mean any financial interest, including any direct or indirect ownership stake through equity, debt, or other means. “Compensation arrangement” includes any agreement under which a premium finance company provides an insurance producer, or an agent or employee of an insurance producer, any remuneration, including bonuses or gifts. The bill requires an insurance producer, or an agent or employee of an insurance producer, who has a beneficial interest in, or a compensation arrangement with, a premium finance company to report the interest or arrangement to the Insurance Commissioner.

Current Law: An insurer that markets through independent insurance producers may not:

- refuse to issue or deny the issuance of a policy because premiums have been advanced by a registered premium finance company that is not affiliated with the insurer; or
- require an insured to use a particular premium finance company or other installment plan.

In addition, an insurer may not discriminate, intimidate, or retaliate against an insurance producer or insured that uses premium financing. With respect to private passenger automobile policies, an insurance producer who has an ownership interest in a premium finance company must provide a disclosure to be signed by the insured that compares the costs and terms of premium financing with the insurer’s alternative payment plan. The disclosure must:

- state the total amount to be paid by the insured under the premium finance agreement during the policy term, including premium, any down payment, and all interest, fees, and charges incident to the premium finance agreement and resulting extension of credit; and
- state the total amount to be paid by the insured under the insurer’s alternative payment plan during the policy term, including premium, any down payment, and all fees and charges incident to the alternative payment plan.

MAIF Effect: According to MAIF, approximately 30% of MAIF’s private passenger auto insurance applications originate from producer offices that have ownership stakes in premium finance companies. The bill only applies to MAIF private passenger policies. Thus, MAIF advises that these producers would direct customers to other insurers in order to utilize the premium finance companies in which the producers have beneficial interests.

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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