

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 394
Finance

(Senator Pugh, *et al.*)

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.

The bill applies to all policies and contracts issued by MAIF on or after October 1, 2011.

Fiscal Summary

State Effect: General fund revenues decrease minimally if MAIF lowers its premiums due to the bill. Special fund revenues increase by \$125 for the one-time form filing fee charged to MAIF. Expenditures are not affected.

MAIF Effect: MAIF's nonbudgeted expenditures increase minimally due to processing monthly installment payments. MAIF's nonbudgeted revenues from installment fees increase correspondingly to cover additional expenditures; the magnitude of the increase depends on the amount of the monthly fee and the number of MAIF policyholders who choose to pay on an installment basis. MAIF is unable to predict the number of policyholders who will choose to pay on an installment basis. 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: Minimal.

Analysis

Current Law/Background: 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. MAIF is authorized to insure a person who owns or leases a vehicle registered in the State, has a valid State driver's license, and has made good faith attempts to obtain a policy from at least two private insurers and has been rejected or refused for any reason other than nonpayment of premiums. In other states, private insurance companies share in insuring those unable to obtain insurance (known as the residual market) through an assigned risk plan in their respective state.

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 Insurance 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 financing 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. Premium finance companies typically require a down payment ranging from 11% to 15% of the premium with 10 additional installment payments to pay the outstanding balance owed.

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.

State Revenues: MAIF is subject to the 2% premium tax administered by the Maryland Insurance Administration (MIA). General fund revenues from the premium tax 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 will make one filing subject to the \$125 filing fee as a result of the bill.

MAIF Effect: MAIF's nonbudgeted revenues increase to the extent its policyholders choose to pay premiums on an installment basis. MAIF advises that it has approximately 64,797 private passenger policies in force and that most policyholders currently finance their premiums through a premium finance company. Some installment payments may be submitted by electronic fund transfer, but the majority are likely to be paid by check.

MAIF advises that it may only require limited, additional staff support to process the payments because existing staff who currently process payments from premium finance companies can 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. Although the bill is silent as to MAIF's ability to charge a processing fee for installment payments, other insurers are able to charge a similar fee. Thus, MAIF will most likely be able to as well; however, any processing fee must be approved by the Insurance Commissioner.

It is assumed that the installment fee that MAIF charges policyholders is 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 only*, if MAIF charges a \$5 monthly fee to 15,200 policyholders, its revenues increase by \$912,000 annually.

To the extent MAIF's fee revenues exceed its additional expenditures, MAIF can lower its premium rates. MAIF advises that the bill may save MAIF policyholders between \$200 and \$400 per year.

Small Business Effect: Small premium finance companies that finance MAIF insurance premiums may experience a loss of business to the extent MAIF policyholders choose to pay premiums on an installment basis through MAIF. Small businesses that purchase insurance through MAIF and currently use premium finance companies may experience savings to the extent MAIF's fees are lower than the fees and interest charged by their premium finance companies. Any such impact is assumed to be minimal.

Additional Information

Prior Introductions: SB 603 of 2008 received a favorable report from the Senate Finance Committee and passed second reading, but no further action was taken. Its cross file, HB 32, received a favorable report from the House Economic Matters Committee, but no further action was taken. HB 767 of 2007 was heard by the House Economic

Matters Committee, but no further action was taken. Similar bills were introduced in the 2006 and 2005 sessions.

Cross File: None.

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

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