

Department of Legislative Services

Maryland General Assembly

2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 1006

(Senator Middleton)

Finance

Economic Matters

Maryland Automobile Insurance Fund - Fund Producers - Commissions

This bill authorizes the Maryland Automobile Insurance Fund (MAIF) to determine the rate of commission MAIF's Insured Division must pay to a fund producer of a policyholder to whom a policy is issued. The rate for private passenger auto insurance must be between 10% and 15% of the total premium. The bill requires MAIF to report to the Senate Finance Committee and the House Economic Matters Committee on MAIF's implementation of a commission payment structure that provides commissions between 10% and 15% to fund producers by October 1, 2014. The report must incorporate whether and how the commission payment structure has incentivized use of advanced electronic technology, incentivized deployment of resources to retention of policyholders, resulted in administrative cost savings for MAIF, and resulted in fewer uninsured motorists.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: The bill does not affect State operations or finances.

MAIF Effect: Nonbudgeted expenditures increase significantly to the extent that MAIF increases the rate of commission paid to fund producers. The bill's reporting requirement may be handled within existing budgeted resources. No impact on nonbudgeted revenues.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: Created by the General Assembly in 1972, MAIF, through its Insured Division, provides automobile liability insurance to residents of the State who are unable to obtain policies in the private insurance market. 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 must issue a policy for motor vehicle liability insurance if an applicant pays a premium and:

- owns a covered vehicle registered with the Motor Vehicle Administration (MVA), has a license issued by MVA to drive a covered vehicle, or is a lessee under a “lease not intended as security” as defined by Maryland law;
- does not owe to MAIF (1) an unpaid premium with respect to a policy that has expired or been canceled; or (2) a claim payment obtained by fraud;
- has made at least two good faith efforts to obtain a policy from two separate members of the Industry Automobile Insurance Association or has had a policy canceled or nonrenewed by an association member for a reason other than nonpayment; and
- meets specified residency requirements.

MAIF may not issue a policy if a person does not meet these requirements, including applicants who either lease a private passenger vehicle to an individual who does not meet the residency requirements or garages the vehicle principally outside the State. There are specified exceptions for armed forces members on active duty and students.

Any insurance producer licensed by the Maryland Insurance Administration and qualified to do business in the State may sell MAIF coverage. However, MAIF may refuse to grant the authority of a fund producer to an insurance producer that has been previously terminated as a fund producer or that has had its license previously revoked or surrendered. There are 1,522 fund producers actively selling MAIF coverage.

Generally, MAIF must pay a fund producer of a policyholder to whom a private passenger auto insurance policy is issued a 10% commission rate of the total premium. If the policy is for any other insurance issued by MAIF, MAIF may determine the commission rate up to 10%. MAIF may not pay a commission on a fully earned basis; if a prospective insured fails to meet MAIF’s eligibility requirements; or if a prospective insured’s initial payment to MAIF, a fund producer, or premium finance company is not honored.

If a MAIF policy is canceled, MAIF must refund any unearned commissions.

MAIF Fiscal Effect: Nonbudgeted expenditures increase significantly to the extent that MAIF increases the rate of commission paid to fund producers. In 2011, MAIF received \$87,304,866 in direct written premiums and paid \$8,650,291 in commissions. *For illustrative purposes only*, assuming a similar level in the amount of direct written premiums received in future years, if MAIF were to raise the commission rate to 15%, nonbudgeted expenditures would increase by approximately \$4.5 million. MAIF advises that it will increase the rate of commission to offset any cost savings resulting from the use of e-policies. MAIF fund producers increasingly issue e-policies, which feature electronic fund transfers (EFT) for premiums and commissions. The use of EFTs to conduct these transactions results in significant cost savings of at least \$900,000.

Small Business Effect: The bill may have a meaningful impact on fund producers, some of which are small businesses, if MAIF increases the paid rate of commission.

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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