

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 478
Economic Matters

(Delegate Davis)

Finance

Maryland Automobile Insurance Fund - Installment Payment Plan - Clarification

This emergency bill clarifies that the Maryland Automobile Insurance Fund (MAIF) may not discriminate by charging different premiums to insureds when they select the fund's installment payment plan instead of a premium finance agreement.

Fiscal Summary

State Effect: None. The bill does not affect premiums or tax revenues collected and does not require further action by the Maryland Insurance Administration (MIA).

MAIF Effect: None. The bill clarifies current law, thereby preserving the paid-in-full discount.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: MAIF was established by the General Assembly in 1972, and it offers 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.

Any insurance producer licensed by MIA and qualified to do business in the State may be authorized to sell MAIF coverage. MAIF is an independent, nonbudgeted State agency.

Chapter 334 of 2013 allows MAIF to accept premium payments on an installment payment basis. The Insurance Commissioner must ensure that MAIF's installment payment plan meets specified conditions related to the structure, timing, and fees associated with the plan.

Thus, policyholders with MAIF now have three payment options. They can pay the policy in full on a yearly basis, use an installment payment plan through a premium finance company that is registered with the Insurance Commissioner, or use an installment payment plan directly through MAIF. If a policyholder finances through a premium finance company, 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. MAIF is prohibited from (1) discriminating by charging different premiums based on the payment option selected by a policyholder and (2) determining commissions paid to a MAIF producer based on whether the producer places an insured in an installment payment plan.

Background: MAIF has offered a discount to policyholders who pay their premiums in full since February 2012. This discount, currently set at 5%, was approved by the Insurance Commissioner; however, the Commissioner has expressed concern that it may not be able to exist under the language of Chapter 334 of 2013, which states, "The Fund may not discriminate among insureds by charging different premiums based on the payment option selected by an insured." The Commissioner has suggested that legislative intent related to this provision be clarified and has requested (but not yet received) an Attorney General's opinion on the matter. In the meantime, the Commissioner has allowed MAIF to continue offering the discount.

MAIF considers the discount a powerful tool that reduces the total number of uninsured drivers in the State. MAIF reports that policyholders who pay in full generally remain insured for the entire year, and the discount saves MAIF on administrative costs related to rewriting policies and collecting multiple payments. In 2012, 2.5% of MAIF policyholders received the paid-in-full discount. In that year, individual discounts ranged from \$25.79 to \$450.37, with an average policyholder discount of \$95.05.

MAIF Fiscal Effect: Because MAIF is currently offering the discount to drivers who pay in full, there is no material effect on MAIF revenues or expenditures.

Additional Information

Prior Introductions: None.

Cross File: SB 53 (Senator Middleton, *et al.*) - Finance.

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

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