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Appropriations Committee

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Capital Budget

Chair, Transportation and the
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THE MARYLAND HOUSE OF DELEGATES
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Maryland Automobile Insurance Fund – Installment Payment Plans (HB 377)
Testimony of Delegate Marc Korman—Favorable

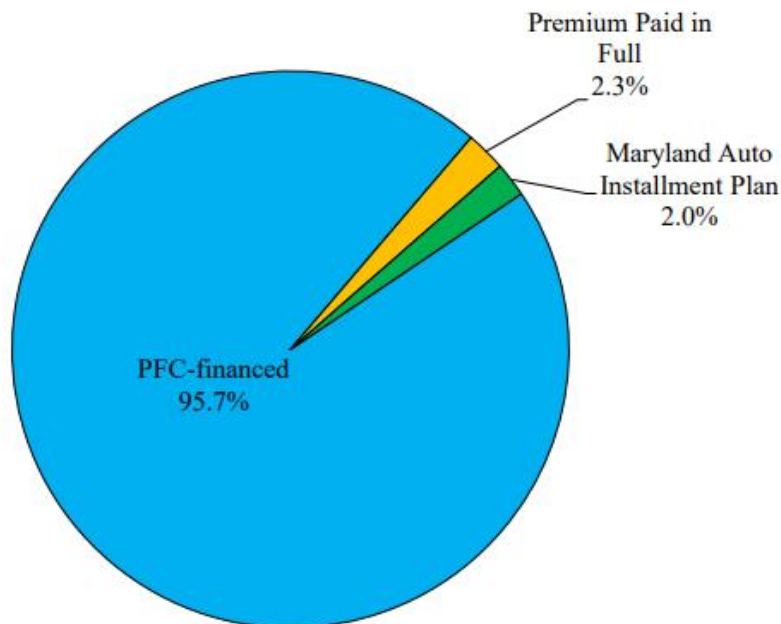
Thank you Mr. Chair, Mr. Vice Chair, and the members of the Economic Matters Committee. I come before you today to discuss **HB 377 (Maryland Automobile Insurance Fund - Installment Payment Plans)**. The purpose of the legislation is to alter the practices by which the Maryland Automobile Insurance Fund (MAIF) sells auto insurance on an installment basis in order to make automobile insurance more accessible and affordable.

As you know, MAIF provides insurance for high-risk Marylanders who otherwise would not be able to qualify for or afford auto insurance coverage on the open market. For many Marylanders, MAIF is the only option available for low-cost insurance. However, there are still drivers who are not able to afford MAIF's premiums.

In 2013, the General Assembly passed a restrictive MAIF installment payment plan bill (SB 930) which permitted installment plans by MAIF—something other auto insurance companies could already do—for the first time but mandated 25% down payments and six installments for an annual premium less than \$3,000 and 20% down and eight installments on annual premiums of \$3,000 or more. The 2013 policy change was the correct one and designed to make auto insurance more accessible and affordable. But almost a decade later, we now know the General Assembly did not go far enough.

MAIF is a quasi-state agency that comes before my subcommittee each year as part of the budget review process. And each year we hear about the restrictive nature of MAIF's installment plans, including DLS recommendations that we loosen the restrictions to make MAIF's installment plans more attractive and affordable. The result of the status quo is that since the inception of the MAIF installment plan, only 2% of MAIF policyholders have opted to use the installment plan; 96% use premium financing; and 2% pay in full.

Exhibit 7
Insured Division Policies Issued
Calendar 2013-2020



PFC: premium finance company

Note: Data for policies issued October 1, 2013, to December 31, 2020.

Source: Maryland Automobile Insurance Fund

Source: Department of Legislative Service MAIF Budget Analysis, <https://mgaleg.maryland.gov/Pubs/BudgetFiscal/2022fy-budget-docs-operating-D70J00-Maryland-Automobile-Insurance-Fund.pdf>.

The problem is that premium financing may mean lower down payments (typically just 10% to 12%) but interest fees are then applied, driving up the actual long-term costs paid by drivers.

The MAIF installment plan should be reformed so that drivers using our state insurer of last resort can make reasonable payment plans that they can afford. HB 377 removes the statutory restrictions for the MAIF installment payment plan. The legislation gives MAIF the flexibility to develop a reasonable plan for its policyholders. It does not limit or restrict the premium finance companies themselves.

HB 377 mandates that the Maryland Insurance Commissioner consider the following factors when approving MAIF's plans for accepting premiums on an installment payment basis:

1. The percentage of the initial premium payment in comparison to the policy's total premium.
2. The number of installment premium payments.
3. The overall affordability of the installment payment plan in comparison to other available payment options.

Additionally, HB 377 mandates that the Insurance Commissioner give notice to the General Assembly on any premium adjustments and their respective effects within 90 days of a change.

MAIF has proven to be a necessary resource for high-risk drivers who are unable to get coverage anywhere else, however the current onerous premium plans are deterring the very drivers MAIF is supposed to serve from getting coverage or is causing them extreme and unnecessary financial hardship. HB 377 takes the necessary step in reforming MAIF's installment plans to make the plans more affordable to ensure that MAIF continues to be a viable auto insurance alternative for drivers who have no other options. I urge a favorable report.