American Property Casualty Insurance Association
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Testimony of

American Property Casualty Insurance Association (APCIA)

House Economic Matters Committee

House Bill 377 Maryland Automobile Insurance Fund - Installment Payment Plans

February 3, 2022

Letter of Opposition

The American Property Casualty Insurance Association (APCIA) is a national trade organization representing nearly 60 percent of the U.S. property casualty insurance market. Our members write approximately 50.9 percent of all private passenger auto insurance sold in Maryland. APCIA appreciates the opportunity to provide written comments in opposition to HB 377.

HB 377 would change the current law from allowing Maryland Automobile Insurance Fund (MAIF) to offer a limited payment plan with not less than 20% or 25% down payment depending on the size of the premium to removing any restrictions on the payment plan that MAIF could offer after approval by the Maryland Insurance Administration (MIA.) The MIA would not consider the solvency in approving the payment plan but is rather required to consider the "affordability" of the plan with other options.

The changes proposed in HB 377 grant the Commissioner the power to lower down-payment rates and remove the existing restrictions on the payment plan. In short, this will allow the MAIF to offer any plan it chooses provided it has the approval of MIA. Proposed provisions in HB 377 will provide MAIF with a fully competitive installment plan, within a framework where MIA will be required to ensure that MAIF's payment plans are affordable, and thus competitive, with private insurance plans. The possibility that MAIF will lower down-payments to as low an amount as 10% and begin offering six-month policies should be an issue of concern to the MIA as well as the people of Maryland.

APCIA believes that in assessing the availability of auto insurance in Maryland for individuals in need of coverage of last resort, that the Commissioner should not be reviewing the affordability of the current installment plans in comparison to others but instead evaluate the installment plan with additional information. APCIA suggests that consideration be given to the how installment plans are offered by residual auto insurance plans in other states in the region for comparison purposes and that any installment plan that is to be approved by the Commissioner reflect the administrative costs of the plan and any changes in the rate of cancellation of fund policies, and estimated changes in fund revenue due to reduction of initial and periodic payments.

HB 377 presents an insolvency risk for MAIF. As the insurer of last resort, MAIF is a resource utilized in cases where individuals seeking to register an automobile will purchase a policy from MAIF to meet the threshold requirement of being insured at the time of registration. Individuals seeking only to meet this threshold will not be incentivized to continue premium payments beyond the immediate need of vehicle registration. Put simply, lower down-payments and installment plan availability will reduce premium payments made to MAIF as well as reduce the time frame of insurance coverage of drivers who have purchased MAIF's polices. In offering a six-month auto policy, MAIF will lower the initial down payment to an even lower amount.

According to MIA's 2015 Report on Maryland Auto Insurance Fund Installment Payment Plans, the cancellation rate in the years following passage of the plan was 53.8%; and of the cancelled policies, and approximately 39.2%

used the MAIF installment plan.[1] The cancellation rate on MAIF's installment plan is already high and will likely only increase in instances where the insured has less of an investment in the policy. While the proposed changes may increase installment plan adoption rates, it may very well serve to decrease insurance coverage rates of Maryland drivers in total through attrition.

The potential revenue shortfall for MAIF has the potential to create an indirect burden for private insurers through incentivization of future assessments on private insurers to stabilize the fund. Those assessments are passed on to the consumer. In the end the consumer will be paying for the financial shortfalls of MAIF.

The proposed changes in HB 377 will potentially directly harm the existing private auto insurance market in Maryland as well. MAIF is currently exempt from the 2% premium tax and does not pay any charge for driving records from the Department of Motor Vehicles. The lowering of down-payments and the addition of a fully competitive installment plan will place private insurers at an even greater disadvantage. MAIF share of the marketplace has been shrinking as it should as an insurer of last resort. An indicator of competitiveness is the market share of MAIF which has dropped from 6.3% of the total written premium for private passenger auto in 2002[2] to 1.17% in 2015.[3] Based on recent 2020 NAIC market share data, MAIF is no longer in the top 15 writers in the marketplace which places their share at less than ½ of a percent of the marketplace. The fact that MAIF's market share has decreased while other writers' market share has increased would indicate that insurers are willing to accept more risk because they can better evaluate risk using various risk factors. Thus, more and more Marylanders are no longer being insured through MAIF.

This direct interference with the private market, combined with potential recoupment of MAIF funding shortfalls via the assessments on voluntary writers creates an unreasonable dual burden on the private insurance market. MAIF should serve as a supplemental source of insurance availability, it should not seek to compete with private insurers in the marketplace, nor undercut actuarily sound insurance products offered by those insurers by determining affordability thresholds in the insurance marketplace.

Additionally, the General Assembly should be aware that MAIF is not subject to the same cancellation requirements as those in the private marketplace. Under current law, MAIF is not subject to the notice of cancellation required under Md. Insurance Code Ann. § 27-602. Currently, MAIF is not required to send notice to its policyholders when it cancels a policy for nonpayment of premium. This provides a distinct administrative cost advantage to MAIF over private insurers in Maryland, but more importantly allows **MAIF to cancel polices without informing policyholders, a practice which runs contrary to the public service roll that residual market funds provide for the State.**

We appreciate the opportunity to comment, and we look forward to working with the Sponsor. For all these reasons, the APCIA urges the Committee to provide an unfavorable report on HB 377.

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[1]https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/2015ReportonMarylandAutoInsuranceFundInstallmentPaymentPlans.pdf

[2] The Maryland Insurance Administration's "2008 Report on the Effect of Competitive Rating in the Marketplace"

[3] 2016 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland MSAR #995".