



MARYLAND
AUTO INSURANCE

TESTIMONY – Senate Bill 278

Date: February 2, 2022

Position: Favorable

Bill Number: Senate Bill 278

Bill Title: Maryland Automobile Insurance Fund – Installment Payment Plans

Senate Bill 278

Senate Bill 278 removes the statutory installment payment plan restrictions and allows MAIF the same flexibility as other insurers to develop a reasonable payment plan option for its policyholders. The legislation requires the Maryland Insurance Commissioner to approve the MAIF installment payment plan and report any changes to the plan to the General Assembly.

Background

From the beginning in 1973, MAIF was legally prohibited from financing premiums or accepting installment payments. (Ch.73, 1973). Policyholders could either pay the annual premium in full or finance the premiums through a Premium Finance Company (PFC) (*Insurance Article §23-101 et seq.*). No other insurer in Maryland is subject to similar requirements and insurers are generally free to construct their installment plans in any fashion that supports their business model.

Since very few MAIF policyholders can pay the annual premium in full, 96% of all MAIF policyholders have historically financed premiums through a PFC. This arrangement has long been recognized as imposing additional cost on Maryland Auto policies due to fees and finance charges. *See e.g. The Maryland Automobile Insurance Fund and the Private Insurance Market, Maryland Insurance Administration (January 2004).*

In 2013, the General Assembly passed Senate Bill 930 to address this issue. The goal of that bill was to allow Maryland Auto, for the first time, to accept installment payments. However, as adopted, the bill placed substantial restrictions on the use of installments, limiting installments to: (1) 25% down and six installments for annual premium less than \$3,000 and (2) 20% down and eight installments on annual premiums of \$3,000 or more. No other installment plan terms are allowed.

The 2013 bill was a compromise and has been underutilized due to the combination of a high down payments and limited number of installments. As a result, only 2% of MAIF policyholders have opted for the MAIF installment plans since 2013.

Current Law

MAIF's four installment options and fees were approved by the Insurance Commissioner for use on private passenger policies issued on or after October 1, 2013:

- Annual premium less than \$3,000:
 - 25% down payment and three installment payments; and
 - 25% down payment and six installment payments.
- Annual premium of \$3,000 or more:
 - 20% down payment and four installment payments; and
 - 20% down payment and eight installment payments.

Each plan also requires a \$2.00 monthly installment fee and \$5.00 late fee, approved by the Commissioner.

Analysis

The average MAIF annual premium is \$2,275.00. The majority of MAIF policyholders select the 25% down payment and six installment plan option. This MAIF plan under current law requires a \$568.75 down payment, six payments of \$286.37 and six \$2.00 installment fees for a total cost, including premium and fees, of \$2,287.00.

A PFC generally requires at least a 10% down payment and finances the remaining balance. The finance charge by statute, cannot exceed "1.15% for each 30 days of the loan, computed in advance", and a \$20 initial service fee. For the average \$2,275.00 MAIF annual premium, a PFC requires a \$227.50 down payment, ten payments of \$230.20 which includes interest and a \$20.00 initial service fee for a total cost, including premium, interest and fees, of \$2,530.46. The APR on these transactions is approximately 26%. Ninety six percent (96%) of MAIF policyholders choose premium financing to pay for their premiums.

For illustrative purposes, under Senate Bill 278 if MAIF were to require a 17% down payment and 10 payments on the average annual premium of \$2,275.00, the installment plan would require a down payment of \$386.75, ten payments of \$190.50 and ten \$2.00 installment fees for a total cost of \$2,295.00.

Senate Bill 278 would allow a lower down payment and an increased number of installments. The illustrated MAIF plan lowers the down payment by \$182.00 and the per payment is \$95.87 less compared to the current MAIF installment plan. Compared to premium financing, with an increased number of installments, MAIF policyholders would pay \$39.70 less per installment payment. Overall, by choosing the illustrated MAIF installment payment plan our policyholders would save \$235.46 on the total average annual cost compared to premium financing.

Conclusion

For these reasons, MAIF urges a favorable report on Senate Bill 278.

For Information: Sandra Dodson – Government Relations 667-210-5182