PREMIUM FINANCE OF AMERICA, INC.

TESTIMONY ON SB278/HB377 (MARYLAND AUTOMOBILE INSURANCE FUND – INSTALLMENT PAYMENT PLANS)

POSITION: UNFAVORABLE

Premium Finance of America, Inc. ("PFA") is a premium finance company located in Baltimore County. PFA has been in business for 30 years and employs 8 Marylanders currently, without making any reductions in force during the pandemic over the last two years. Financing premiums for MAIF insureds is a significant part of PFA's business in Maryland.

This bill would remove all statutory limitations on MAIF's ability to offer an installment plan, representing a significant break with longstanding Maryland law that we believe is not justified. Since MAIF was established in 1972, Maryland law has always restricted MAIF's ability to have installment plan like private insurers. This protected MAIF's solvency, recognizing that if MAIF did not collect the entire premium up front, it would create a risk that MAIF would not have sufficient funds to pay claims and continue operations. If MAIF becomes unable to meet its obligations, all private auto insurance policies are taxed with an assessment to make up the shortfall through the assessment mechanism in the law.

The law prohibited MAIF from offering any installment plan during its first 40 years of existence. In 2013, the law was changed to allow MAIF to offer a limited installment plan, one that required a meaningful downpayment and a limited number of installment payments (20 or 25 percent downpayment and 6 or 8 payments for a 12 month policy, depending on the premium level). In this way, the General Assembly struck a balance between allowing MAIF's insureds some ability to pay over time while protecting MAIF's financial stability (and avoiding a public assessment) and maintaining its status as the insurer of last resort rather than a competitive player in the market.

The bill would remove the existing parameters on MAIF's installment plan. Although the bill requires MAIF to get the plan approved by the Maryland Insurance Administration, it does not direct – or even appear to allow – the MIA to review the proposed plan to ensure that it will generate sufficient revenues at the times needed to preserve MAIF's solvency or the potential impact of the plan on MAIF's already high cancellation rate. Instead, it requires the MIA to consider the "affordability" of the plan in comparison to "other payment options" available to the policyholder. Since a 10% downpayment is what is typically available for premium financing, considering "affordability" would allow MAIF to seek a downpayment as low as 10%.

As this committee has heard many times over the years of looking at the uninsured motorist issue, it is all too common for a person to purchase insurance just to get the tags and never make the first payment. At a 10% downpayment, if the insured never makes the first payment, MAIF would not collect sufficient premium for the minimum of 40 days (including the 10 day notice period to cancel for nonpayment) it would be on the risk, during which MAIF is responsible for any covered claims that may arise.

Allowing a lower downpayment and a longer payment schedule will contribute to MAIF's already high cancellation rate because insureds will have less of an investment in the policy at a lower downpayment and longer payment schedule. The public information about MAIF that is available (report linked below) shows that, even at the higher downpayments/shorter payment schedule under current law, approximately 40% of MAIF's cancellations are installment plan customers. This can only be expected to increase if insureds' investment in the policy goes down. Additional cancellations will only exacerbate the solvency risk to MAIF and increase Maryland's uninsured motorist rates. See _https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/2015ReportonMarylandAutoInsuranceFundInstallmentPaymentPlans.pdf.

Premium finance companies allow insureds additional time to make up a missed payment than MAIF will be able to provide. Maryland law requires premium finance companies to provide a five day grace period (not required of MAIF) before sending a ten-day notice of intent to cancel, and even after the 10 days has passed, premium finance companies give insureds additional time to make the missed payment before the cancellation is sent to MAIF because the cancellation is not required to be sent to MAIF until 30 days later. MAIF isn't required to give this additional time if the insured misses an installment, and not cancelling immediately after the 10 day notice period ends would only lengthen the time MAIF is on the risk without the necessary premium up front at a 10% downpayment.

The bill would allow MAIF to offer an installment plan on a six month policy for the first time, which would entail an even lower financial investment in the policy so can be expected to result in additional cancellations and churn.

According to information from the Auto Insurance Plan Service Office (which provides services to residual market plans throughout the country) (AIPSO)(see attached) considered by the General Assembly when the current payment plan was put in place, no residual market program anywhere in the country has an unrestricted installment payment plan. The average required downpayment is approximately 31% with 4.6 payments. Maryland's current law provides one of the most generous residual market installment plans in the country. The AIPSO information is attached.

For these reasons, PFA respectfully requests an unfavorable report.

For additional information, please contact Marta Harting (mdharting@venable.com).