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January 31, 2022

The Honorable Delores G. Kelley
Chairman, Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, Maryland 21401

RE: Senate Bill 278-Maryland Automobile Insurance Fund - Installment Payment Plans - UNFAVORABLE

Dear Chairman Kelley, Senator McCray and Members of the Senate Finance Committee,

I am writing on behalf of the Maryland Association of Mutual Insurance Companies (MAMIC), in opposition to Senate Bill 278 - Maryland Automobile Insurance Fund (MAIF) - Installment Payment Plans.

MAMIC is comprised of 12 mutual insurance companies that are headquartered both in Maryland and in neighboring states. Together, MAMIC members offer a wide variety of homeowners and other insurance products, both personal and commercial, for thousands of Maryland citizens. MAMIC members are a key component of the property and casualty insurance industry that serves Maryland.

MAIF was created in 1972 as a replacement for the residual automobile insurance market in Maryland. A residual market is sometimes known as a "market of last resort," meaning that applicants must first make a good faith effort to obtain automobile insurance, pursuant to our compulsory insurance law, from the private automobile insurance market. Literally hundreds of licensed automobile insurers are active in Maryland today, and automobile insurance is widely available.

Senate Bill 278 would, in a single stroke, remove a carefully constructed MAIF premium payment system that has been in place for a number of years. It would replace that statutory formula with a simple requirement that a MAIF installment plan must only meet the same requirements as insurers in the private insurance market, which is not appropriate for a market of last resort. MAIF would be free, under this bill, to adopt an installment plan equivalent to a highly competitive payment plan from a private insurer. Furthermore, the bill requires the Maryland Insurance Commissioner, in evaluating a MAIF installment payment plan, to consider "THE OVERALL AFFORDABILITY OF THE INSTALLMENT PAYMENT PLAN IN COMPARISON TO OTHER PAYMENT OPTIONS AVAILABLE TO THE POLICYHOLDER." MAMIC respectfully submits that the Maryland Insurance Administration is not equipped to make judgements about the affordability of insurer payment plans. It can, and does, evaluate whether insurance policies, rates or insurer practices are unfairly discriminatory, which is a much higher standard than a subjective notion of affordability.

The changes in Senate Bill 278 are significant, and could also serve to adversely affect the financial condition of MAIF. For example there is no requirement that the Insurance Commissioner examine the administrative costs associated with an installment plan, or require that such costs be reflected in the plan itself. With a focus only on "affordability," the Commissioner's traditional responsibility to ensure that an insuring entity conduct its business in a fiscally prudent

fashion, would be a competing consideration with the affordability determination required under the bill. Similarly, there is no requirement for the Commissioner to examine the possible effect of a change in the MAIF installment plan on its cancellation rate, which has traditionally been in the 50% range. If the cancellation rate were to increase – a distinct possibility – there would be additional downward pressure on MAIF revenues. If this legislation were to be enacted, the Commissioner should be required to pay much closer attention to these and other aspects of MAIF’s fiscal performance.

Finally, there is already an appropriate benchmark by which any MAIF installment plan could be evaluated. That benchmark could be determined by examining the installment payment plans of states contiguous to Maryland. Such an analysis would address the objective of the “affordability” determination currently required in Senate Bill 278, by offering a comparison with practices of nearby, similarly situated states.

For these reasons, MAMIC respectfully requests an unfavorable report on Senate Bill 278.

Very truly yours,

A handwritten signature in cursive script that reads "Bryson Popham". The signature is written in black ink and is positioned to the left of the typed name.

Bryson F. Popham