SB 278_MAIF_ FAV.pdf
Uploaded by: Al Redmer, Jr.
Position: FAV

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

SB 278 Testimony .pdf
Uploaded by: Cory McCray
Position: FAV

Cory V. McCray
Legislative District 45
Baltimore City

Budget and Taxation Committee

Capital Budget Subcommittee
Health and Human Services Subcommittee

James Senate Office Building
11 Bladen Street, Room 221
Annapolis, Maryland 21401
410-841-3165 · 301-858-3165
800-492-7122 *Ext.* 3165
Cory.Mccray@senate.state.md.us

THE SENATE OF MARYLAND
Annapolis, Maryland 21401

Vote yes to SB 278

Dear Chair, Vice Chair and members of the Committee:

In 2019, I was humbled to be sworn into the Maryland State Senate and assigned to the Budget and Taxation Committee. In 2020, I was fortunate to have the rare opportunity to be appointed as Chair of the Public Safety Transportation & Environment Subcommittee. With these opportunities, there is a great responsibility to shape the $50 plus billion dollar budget for our great State of Maryland. There is also the first-hand opportunity to learn how the functions, successes, and challenges of each agency. I try to envision each agency through an equity lens and implement much needed change by removing arbitrary barriers and advancing the communities that need it most.

During the 2022 legislative session, I will work closely with my colleague Delegate Marc Korman who is my subject matter counterpart on **Senate Bill 278**, the Maryland Automobile Insurance Fund – Installment Payment Plans. Unfortunately, inequities are baked into the statue that adversely impact consumers in low-income communities, new drivers with no previous driving record, and drivers with the inability to be added to a family member's plan. Options for choosing a plan under a finance company are restricted for these policyholders. The insurance plans reserved for these consumers require a high down payment threshold with expensive and limited installments over a six month or yearly period. The companies fund the payments through the Maryland Automobile Insurance Fund (MAIF).

To help rectify these issues, a report was written by the Department of Legislative Services (DLS) in 2021 recommending:

1) the payment threshold be lowered
2) the timeline for the number of payments be increased
3) the plans be made more affordable to low-income communities
4) reasonable installment fees or reasonable fees for late premium payments be implemented.

As a result of these recommendations, everyone impacted would be given the ability to possibly bypass the high premiums required by these selected insurance companies, resulting in cost savings. This would also provide greater protections to policyholders by decreasing or eliminating the reliance on companies requiring a high down payment threshold from policyholders and offering limited installments as the only option.

I was not only proud to have read the recommendations last year, but I am appreciative to work towards positive change in 2022 by helping to implement an amendment into Senate Bill 278 with Delegate Korman.

While these type of bills are not major game changers to address public safety, educational outcomes, or workforce training, I do believe that SB 278 will impact the lives of people who need to save resources the most. These small yet intentional actions highly motivated me to run for the Maryland State Senate. Most importantly, I feel as though I have the responsibility to educate my neighbors on the importance of the legislative work that we are doing on behalf of all Marylanders to set a correction course and model all of our actions through an equity lens.

Respectfully,

Cory V. McCray
45th District

SB 278_MAIF_ FAV.pdf
Uploaded by: David Pieffer
Position: FAV

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

SB 278 Support Letter 2022.pdf
Uploaded by: Karen Straughn
Position: FAV

BRIAN E. FROSH
Attorney General

ELIZABETH F. HARRIS
Chief Deputy Attorney General

CAROLYN QUATTROCKI
Deputy Attorney General

WILLIAM D. GRUHN
Chief
Consumer Protection Division

STATE OF MARYLAND
OFFICE OF THE ATTORNEY GENERAL
CONSUMER PROTECTION DIVISION

Writer's Fax No.

Writer's Direct Dial No.

410-576-7942
kstraughn@oag.state.md.us
Fax: 410-576-7040

February 2, 2022

To: The Honorable Delores G. Kelley
Chair, Finance Committee

From: Karen S. Straughn
Consumer Protection Division

Re: Senate Bill 278 – Maryland Automobile Insurance Fund – Installment Payment Plans (SUPPORT)

The Consumer Protection Division of the Office of the Attorney General submits the following written testimony in support of Senate Bill 278 submitted by Senator Cory V. McCray. This bill provides for installment payment plans for individuals insured through the Maryland Automobile Insurance Fund.

The Maryland Automobile Insurance Fund provides personal automobile protection to higher risk individuals who may not qualify for insurance through a standard carrier. Some are considered higher risk due to their driving records, yet others are considered higher risk as a result of their inability to keep their payments current.

The premiums experienced by the individuals insured through Maryland Auto are generally higher than what is paid to standard carriers. As a result, many individuals are unable to afford to pay the full premium up front and have been forced to finance their premiums at an even higher cost. In some cases, the expense results in consumers being unable to afford automobile insurance.

By permitting individuals to pay through an installment plan, they can spread the payments out over time and pay a fee per payment that is lower than the finance charges consumers are currently paying. This will result in a lower overall cost to individuals insured through Maryland

Auto, making them less likely to default. This will also assist those who may have had payment problems in the past to be able to maintain their payments and eventually return to a standard carrier.

For these reasons, we ask that the Finance Committee return a favorable report on this bill.

cc: The Honorable Cory V. McCray
Members, Finance Committee

SB278-FIN-FAV.pdf
Uploaded by: Natasha Mehu
Position: FAV

BRANDON M. SCOTT
MAYOR

Office of Government Relations
88 State Circle
Annapolis, Maryland 21401

SB 278

February 2, 2022

TO: Members of the Senate Finance Committee

FROM: Natasha Mehu, Director of Government Relations

RE: Maryland Automobile Insurance Fund - Installment Payment Plans

POSITION: SUPPORT

Chair Kelley, Vice Chair Feldman, and Members of the Committee, please be advised that the Baltimore City Administration (BCA) **supports** Senate Bill (SB) 278.

SB 278 would allow the Maryland Auto Insurance Fund (MAIF) the flexibility to develop more reasonable installment plans for its policyholders. Restrictions in current law governing the installment plans have severely hampered the effectiveness of the option -- only 2% of policyholders have opted to use it.

MAIF was created to help individuals who were unable to obtain auto insurance on the private market. Their products provide a targeted means for helping to reduce the number of uninsured motorists on the road. The high down payments and the limited number of installments it is able to offer have placed MAIF in a posture different than other insurers and has caused low utilization of a promising tool to help low-income residents obtain auto insurance.

If passed, this bill would have a positive effect on some of Baltimore City's most vulnerable populations. Our low-income drivers would be able to purchase and maintain insurance policies without adding unjust financial burdens. This would help make our streets safer for drivers and pedestrians alike.

For these reasons, the BCA respectfully requests a **favorable report** on Senate Bill 278.

Annapolis – phone: 410.269.0207 • fax: 410.269.6785
Baltimore – phone: 410.396.3497 • fax: 410.396.5136
https://mogr.baltimorecity.gov/

SB 278_MAIF_ FAV.pdf
Uploaded by: Sandra Dodson
Position: FAV

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

SB 278_MAMIC_UNF.pdf

Uploaded by: Bryson Popham

Position: UNF

Bryson F. Popham, P.A.

Bryson F. Popham, Esq.
191 Main Street
Suite 310
Annapolis, MD 21401
www.papalaw.com
410-268-6871 (Telephone)
443-458-0444 (Facsimile)

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,

Bryson Popham

Bryson F. Popham

SB0278_2022_PFA_UNF.pdf
Uploaded by: Marta Harting
Position: UNF

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).

NAMIC SB 278 testimony.pdf
Uploaded by: Matt Overturf
Position: UNF

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

January 31, 2022

The Honorable Delores Kelley
Chair, Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, MD 21401

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

Dear Chairwoman Kelley and Members of the Senate Finance Committee,

I write today on behalf of the National Association of Mutual Insurance Companies (NAMIC) in opposition to SB 278. NAMIC is the largest property/casualty insurance trade group with a diverse membership of nearly 1,500 local, regional, and national member companies, including eight of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 67 percent of the homeowner's insurance market and 55 percent of the auto market. NAMIC requests an unfavorable report on Senate Bill 278 as it will fundamentally alter the installment payment authority of the Maryland Automobile Insurance Fund (MAIF). NAMIC has two primary areas of concern with the bill:

1. **Impact on the private auto insurance market**--MAIF was created to serve as a market of last resort in the Maryland auto insurance market. SB 278 would remove nearly all of the statutory requirements that have been enacted on MAIF's installment payment plan over many years. These statutory revisions are replaced, under the bill, with a requirement that a MAIF installment plan must meet the requirements of Section 27-216 of the Insurance Article. These are effectively the same requirements that govern a private insurer's installment billing plan. NAMIC supports efforts to keep insurance affordable and it recognizes the necessity and role of MAIF in moving towards that goal, but we do not believe removing from MAIF the constraints which should apply to an insurer of last resort will accomplish this task.

2. **Expanded authority of the Insurance Commissioner**--SB 278 would require the Commissioner, in considering the factors of a MAIF installment plan, to include "THE OVERALL AFFORDABILITY OF THE INSTALLMENT PAYMENT PLAN IN COMPARISON TO OTHER PAYMENT OPTIONS AVAILABLE TO THE POLICYHOLDER." This change imposes a new duty on the insurance regulator to evaluate, without any guidelines, the affordability of a single insuring entity's product. This is new responsibilities for an insurance regulator's

traditional tasks to evaluate rates based on whether they are "excessive, inadequate or unfairly discriminatory." NAMIC is concerned that this language does not contain a requirement that the Commissioner consider the actuarial basis for premiums or the underlying insurance product. In essence this could permit MAIF to create installment plans that do not cover the full premium owed. We are concerned that this possibility could both undermine the financial positioning of MAIF and lead to additional financial assessments on the private insurance market, ultimately leading to increased premium pressures in the private marketplace.

For these reasons, NAMIC requests an unfavorable report on SB 278.

Thank you,

Matt Overturf
Regional Vice President
Ohio Valley / Mid-Atlantic Region
937.935.0432 | moverturf@namic.org

SB 278 APCIA OPPOSES final 020222 .pdf

Uploaded by: Nancy Egan

Position: UNF

Testimony of

American Property Casualty Insurance Association (APCIA)

Senate Finance Committee

Senate Bill 278 Maryland Automobile Insurance Fund - Installment Payment Plans

February 2, 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 SB 278.

SB 278 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 SB 278 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 SB 278 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.

SB 278 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%

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
8700 W. Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 | 847-297-7800

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 SB 278 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 SB 278.

Nancy J. Egan,

State Government Relations Counsel, DC, DE, MD, VA, WV

Nancy.egan@APCIA.org Cell: 443-841-4174

---

[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".