

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 142

(Senator Pugh, *et al.*)

Finance

Economic Matters

Property and Casualty Insurance - Premium Finance Companies - Assignment of Rights and Obligations - Repeal of Termination Date

This bill repeals the termination date for provisions in Chapter 334 of 2013 that authorize premium finance companies of certain types of insurance to (1) assign all rights and obligations under a premium finance agreement to another premium finance company or (2) pledge a premium finance agreement as collateral for a loan. If such an assignment is made, they must continue to provide an insured with a specified notice.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: The Maryland Insurance Administration (MIA) can handle the continued oversight of premium finance companies required by the bill with existing budgeted resources. Revenues are not affected.

Maryland Automobile Insurance Fund (MAIF) Effect: None.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 334 of 2013 made numerous changes to the provisions governing MAIF, including allowing MAIF to accept premiums on an installment payment basis on 12-month personal lines policies if specified requirements are met and

the Insurance Commissioner provides approval. In addition to the changes made to MAIF, Chapter 334 authorized premium finance companies to assign all rights and obligations under a premium finance agreement to another premium finance company or pledge a premium finance agreement as collateral for a loan under certain circumstances, but only for certain types of insurance and a two-year period as discussed below:

- If a premium finance agreement is for the payment of private passenger motor vehicle insurance and/or personal insurance, a premium finance company is authorized to (1) assign all rights and obligations under a premium finance agreement to another State-registered premium finance company or (2) pledge a premium finance agreement as collateral for a loan.
- Additionally, a premium finance company that is a party to a premium finance agreement for commercial automobile, fire, or liability insurance is authorized to (1) assign all rights and obligations under a premium finance agreement to another person if the premium finance agreement expressly confers the right to assign all rights and obligations under it or (2) pledge a premium finance agreement as collateral for a loan. However, if the premium finance company assigns rights and obligations for these types of insurance, it must retain the obligation to service the premium finance agreement or assign the obligation to another State-registered premium finance company.

Regardless of the type of insurance, in the event the premium finance company assigns the obligation to service a premium finance agreement to another premium finance company, it must provide the insured with (1) notice of the assignment and (2) the third-party premium finance company's contact information. Any such notice must be by first-class mail or, if specified requirements are met, electronic means.

These provisions terminate after June 30, 2015.

Background: Chapter 334 of 2013 also required MIA to keep track of complaints received from consumers who have had all rights and obligations under premium finance agreements for commercial, automobile, fire, or liability insurance assigned; however, MIA tracked complaints about private passenger motor vehicle insurance and personal insurance as well.

In its final report, delivered on November 14, 2014, MIA advised that, prior to the effective date of Chapter 334, premium finance companies assigned contracts without regulatory guidelines or any statutory requirement to provide notice to consumers. It was customary for Maryland-registered premium finance companies to assign agreements as collateral for loans or lines of credit from banks and other entities, including out-of-state premium finance companies not subject to MIA's authority.

During its time tracking complaints, MIA only received complaints about private passenger motor vehicle insurance and personal insurance. MIA found that, when rights and obligations were assigned, the process caused confusion among consumers and mistakes on the part of the finance company. For example, MIA reports that, in many cases, consumers would make payments to their initial premium finance company only to receive cancellation notices from entities they did not recognize because the initial premium finance company failed to remit the payment. Reasoning that the bill was already paid, consumers would ignore the notice leading to canceled policies and denied claims. Even so, MIA had regulatory authority and was often able to assist consumers.

In its conclusion, MIA advised that, if these provisions are allowed to terminate, premium finance companies are likely to restart the same practices that occurred prior to enactment of Chapter 334. Therefore, MIA advised that provisions (particularly required notice) related to assigning rights and obligations for private passenger automobile insurance and personal insurance should remain in full force and effect.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Maryland Automobile Insurance Fund, Maryland Department of Transportation, Department of Legislative Services

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