

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 278
Finance

(Senator McCray)

Economic Matters

Maryland Automobile Insurance Fund - Installment Payment Plans

This bill expands the authority of the Maryland Automobile Insurance Fund (MAIF) to collect premiums for its private passenger motor vehicle insurance policies on an installment basis, applies existing requirements for insurers that accept premiums on an installment basis to MAIF, and makes a series of conforming changes.

Fiscal Summary

State Effect: The Maryland Insurance Administration (MIA) can handle the bill's requirements using existing budgeted resources. Revenues are not materially affected.

MAIF Effect: Nonbudgeted expenditures for MAIF increase by \$24,100 in FY 2023 for one-time programming and filing fee costs. Nonbudgeted revenues increase minimally to the extent that MAIF policyholders choose MAIF installment plans instead of premium financing, as discussed below.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

Maryland Automobile Insurance Fund – Installment Payment Plans

Under current law, MAIF was authorized to accept premiums on an installment basis by Chapter 334 of 2013; however, MAIF was only authorized to do so on 12-month personal lines policies, and the installment payment plans offered by MAIF were subject to specified

limitations. Specifically, the Insurance Commissioner was required to approve MAIF's plan to accept these payments and ensure the installment payment plan:

- requires an insured's initial premium payment to be no less than (1) for a total annual premium of less than \$3,000, 25% of the total annual premium and (2) for a total annual premium of \$3,000 or more, 20% of the total annual premium;
- adjusts the amount of total annual premium used to determine the initial premium payment using specified federal data;
- is structured and administered to ensure MAIF at no time provides coverage to an insured for a period during which it has not received the actuarially justified premium payment;
- offers no more than (1) six installment payments when the total annual premium is less than \$3,000 and (2) eight installment payments when the total annual premium is \$3,000 or more;
- allows insureds to make an initial premium payment and installment payments in any commercially acceptable form; and
- allows MAIF to impose an administrative processing fee on insureds participating in the installment plan of no more than \$8 per payment.

Under the bill, these limitations are almost all repealed (the Commissioner must still approve MAIF's plan to accept premiums on an installment basis). Instead:

- MAIF is expressly and simply authorized to accept premiums on an installment payment basis;
- in approving MAIF's plan, the Commissioner must consider specified factors related to the cost, number, and affordability of premium payments under the plan; and
- the Commissioner must ensure that MAIF's installment payment plan meets existing requirements for insurers related to the charging and collection of premiums on an installment basis.

The bill also requires the Commissioner to submit a report to the General Assembly when MAIF makes a change to its plan for accepting premiums on an installment basis. The report must provide the reason for the change and include the effect the change will have on the factors discussed above that must be considered by the Commissioner in approving MAIF's plan.

Installment Payment Plan Premiums and Charges

If approved by the Commissioner, an insurer (including MAIF under the bill) who accepts premiums on an installment basis may charge and collect reasonable installment fees

and/or reasonable fees for late payment of premiums by policyholders. The Commissioner must review administrative expenses submitted by the insurer related to these payments, as specified, and may approve a late fee or installment fee of up to \$10. A late fee may not be imposed during any grace period required by law or regulation on a policy of insurance or, if no grace period is required, until two business days after the date the payment amount becomes due.

An insurer (including MAIF under the bill) must credit each payment received from an insured to the premium owed before crediting the payment to an owed late fee or installment fee. An insurance policy may not be canceled for failure to pay a single late fee or single installment fee.

MAIF Revenues: MAIF advises that it currently offers four installment payment plans. For a policy with an annual premium less than \$3,000, a policyholder makes a 25% down payment and may pay the remainder in either three or six installment payments; for a policy with an annual premium of \$3,000 or more, a policyholder makes a 20% down payment and may pay the remainder in either four or eight installment payments. MAIF also charges three administrative fees: \$2 monthly installment fee, \$15 nonsufficient funds fee, and \$5 late fee.

Since the plans were approved, only 2% of MAIF policyholders have opted to use one of MAIF's plans, and 96% of its policyholders use premium finance companies (the other 2% pay in full). MAIF advises that premium finance companies generally require at least a 10% down payment and can offer additional installment payments over the course of a year, making them more appealing to policyholders compared to the larger down payment and fewer installment payments that must be offered by MAIF. Even so, due to the interest charged by premium finance companies, MAIF policyholders pay more for a policy by choosing that option than they would by using one of MAIF's plans.

The bill affords MAIF additional flexibility to design its plans to compete with those offered by premium finance companies and is likely to result in additional policyholders switching to MAIF installment payment plans due to the potential savings for them. MAIF advises the savings for a policyholder, based on the average annual premium of \$2,275, could be about \$235 a year through a MAIF plan designed under the bill's authorization. To the extent policyholders opt to use MAIF installment payment plans instead of premium finance companies, MAIF revenues increase as it collects additional administrative fees for the new plans. A precise estimate cannot be reliably calculated, as it depends on how MAIF's new installment payment plans are designed and how many policyholders choose those plans over premium financing. Any such revenue is anticipated to be minimal.

MAIF Expenditures: To implement its new installment payment plans under the bill, MAIF experiences two one-time costs in fiscal 2023, totaling \$24,125 in that year only. First, MAIF must update the information system it uses to manage its current installment payment plans to include the additional options and flexibility afforded by the bill, resulting in a programming cost of \$24,000. Second, MAIF must file its new plans with MIA and, therefore, incurs a one-time filing fee of \$125 to do so. Once the program is implemented, MAIF can handle ongoing administration of the plans for affected policyholders using existing staff and resources.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 377 (Delegate Korman) - Economic Matters.

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

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