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KATHLEEN A. BIRrane
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Deputy Commissioner

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Associate Deputy Commissioner

November 15, 2022

The Honorable Bill Ferguson
President
Senate of Maryland
State House, H-107
100 State Circle
Annapolis, MD 21401

The Honorable Adrienne A. Jones
Speaker
Maryland House of Delegates
State House, H-101
100 State Circle
Annapolis, MD 21401

RE: Report Required by Insurance Article § 20-507
SB 0278/Ch. 0453, 2022 (MSAR #: 14268)

Dear President Ferguson and Speaker Jones:

Effective October 1, 2022, the restrictions and requirements related to the Maryland Automobile Insurance Fund's (MAIF) authority to accept premiums on an installment payment basis were changed by the passage of SB 278 in the 2022 legislative session. These changes are codified in §20-507 and §27-216 of the Insurance Article of the Annotated Code of Maryland. Section 20-507 requires MAIF to submit its rules for the installment payment plans it offers to policyholders for review and approval of the Maryland Insurance Commissioner prior to implementation.

Under amended §20-507(g)(1)(ii)1(A)(B)(C), the Commissioner shall consider three factors in reviewing MAIF's installment plan rules:

1. The percentage of the initial premium payment in comparison to the total premium under the policy;
2. The number of installment premium payments accepted on a policy under the installment payment plan; and,
3. The overall affordability of the installment payment plan in comparison to other payment options available to the policyholder.

Amended §20-507(g)(1)(ii)2 further provides that the Commissioner shall also ensure that MAIF's installment payment plan meets the requirements of §27-216 of the Insurance Article.

The Commissioner received MAIF's installment plan rules filing on August 17, 2022, and completed a thorough review of the filing focused on the three factors listed above and the requirements of § 27-216. As part of this review, the Commissioner noted that MAIF proposed a

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reduction of the down-payment percentage from the previous legal requirement of 20% or 25% to 18%. This brings MAIF closer to the down payments that private Premium Finance Companies (PFC) utilize (typically 10-15%), while still allowing MAIF to maintain a positive equity position of at least 65 days in the event of a policyholder missing a scheduled payment. This equity position ensures that MAIF's offering of zero-interest installment payment plans to its applicants will not create a strain on MAIF's overall finances.

The Commissioner's review also analyzed MAIF's installment plan program's rules with respect to the number of payments allowed. MAIF's filing allows an insured to make 9 monthly installment payments for the 12-month policy term, which exceeds the previous maximum of 6 monthly payments allowed. This provides a lower monthly payment for MAIF's policyholders than was allowed previously and should make MAIF's new installment payment plan option more attractive for consumers.

Finally, the Commissioner analyzed MAIF's proposal as it compares to the options available from PFC's in the private marketplace. This analysis found that MAIF's program will result in savings over the policy term for policyholders who can make the 18% down-payment by eliminating the interest that is charged by a PFC, which is set by statute at a maximum of 1.15% per 30 days, charged in advance, and eliminating certain fees that may be charged by a PFC that MAIF does not charge. Based on MAIF's average premium, the savings realized by a policyholder that enrolls in MAIF's installment plan program will average \$230 per year, depending on the terms of a specific PFC contract.

The Commissioner approved the filing on September 6, 2022 with an effective date for MAIF's implementation beginning on October 1, 2022. Pursuant to the requirements of amended §20-507(h), the Commissioner shall submit a report to the General Assembly within 90 days in the event MAIF makes a change to its installment plan rules in the future.

Sincerely,



Kathleen A. Birrane
Commissioner
Maryland Insurance Administration

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cc: Senator Delores G. Kelley, Chair, Senate Finance Committee
Delegate C. T. Wilson, Chair, House Economic Matters Committee
Sarah Albert, Mandated Reports Specialist, Dept. of Legislative Services (5 copies)