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Motorists seeking insurance relief

Lawmakers trying to reform auto coverage loan system

By Laura Smitherman
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Pamela Morris thought she got a good deal on car insurance when she obtained private coverage three days after renewing a policy with Maryland's insurer of last resort. But those few days cost her.

Like most motorists insured by the Maryland Automobile Insurance Fund, Morris went through a specialized finance company several years ago for a loan to pay the entire annual premium of $2,100 upfront to the state agency, as required by law. When she canceled the coverage, the finance company charged her $140 in interest and $35 in fees.

State lawmakers have tried for years to lower costs for consumers who turn to so-called premium finance companies, an industry that lends to residents who can't obtain insurance in the private sector and must rely on the state fund known as MAIF. But efforts in the General Assembly to change the system have failed, often in the face of fierce opposition from the premium finance industry.

This year, Maryland Insurance Commissioner Ralph S. Tyler, who was appointed by Gov. Martin O'Malley in September, and a cadre of lawmakers are working to pass legislation to lower costs for MAIF customers and overcome what they characterize as well-orchestrated lobbying. They plan to hold a news conference today outlining their proposals.

"This will reduce the cost of auto insurance for MAIF customers and increase the number of insured motorists on the road, which benefits us all," Tyler said. "It's the right thing to do."

The state fund provides more than 65,000 insurance policies, and wrote about $120 million in premiums last year. Forced to pay upfront for the entire year, nearly all of the policyholders pay through premium finance companies. The average annual premium is $1,700.

A majority of policyholders live in Prince George's County and the Baltimore area. Critics of premium finance companies say they are concerned that low-income and minority residents are disproportionately affected by having to pay rates as high as 30 percent on the short-term loans, adding on hundreds of dollars in fees and interest.

Lobbyists for the premium finance industry say the proposed legislation could put the companies out of business and lead to the loss of 200 jobs at companies that handle premiums through the state fund. They also say they frequently work with consumers who are late on payments to ensure they remain insured and that critics distort how interest and fees are charged.

"It's in their interest to keep people insured," said Bryson Popham, a lobbyist for Agency Services Inc., a Baltimore-based premium finance company.

One bill would allow MAIF to accept monthly payments so that customers could pay the annual premium in smaller increments. Another proposal would require that the finance companies charge interest on the declining loan balance over time, which proponents say would put them on par with other consumer lenders and credit-card companies.

Del. Dereck E. Davis, chairman of the Economic Matters Committee, said he plans to champion both proposals. Meanwhile, he has introduced a bill that would require that every insured driver either pay the entire premium upfront or go through a premium finance company. The bill, apparently introduced to make a point, prohibits insurance companies from allowing customers to pay on an installment basis.

"Considering that the state has long supported this practice for a certain segment of the driving population, it's important that we evaluate this practice for all drivers," Davis said.

The General Assembly created MAIF in 1972 soon after making auto insurance compulsory in the state. Requiring that the annual premium be collected upfront enabled the state fund to amass a capital reserve. Nonetheless, when the fund lost money for the first 15 years of its existence, it issued an assessment to private insurance carriers in the state that was passed on to consumers.

Some lawmakers have been skeptical of whether the state fund, which now has a surplus of more than $170 million, has the capacity to set up payment plans requiring extra administration and customer service help. They also note that private insurance companies charge customers for paying monthly as opposed to paying the entire six-month or annual premium.

"We're tinkering around with something that has worked well," said Sen. George W. Della Jr., a Baltimore Democrat, referring to the current system.

High auto insurance rates in Baltimore have been a point of contention for years. A 2006 task force headed by then-Insurance Commissioner R. Steven Orr in former Gov. Robert L. Ehrlich's administration recommended that MAIF be allowed to accept installment payments. According to the task force report, the state fund's customers are "least able to afford the costs of premium financing."

The installment bill has failed in the legislature in the past three years. "We've given credence to the premium finance companies," said Sen. Catherine E. Pugh, a Baltimore Democrat and sponsor of the bill this year. "They've got strong lobbyists."

M. Kent Krabbe, MAIF's executive director, said: "It's an abusive system. It needs reform."

Krabbe contacted Morris, who had complained to the Maryland Insurance Administration about her premium finance loan, and asked whether she would testify about her experience in the legislature. The agency's investigation found that the interest and fees she paid were allowed under the law. However, MAIF did refund a $54 processing fee it charged even though she had the coverage for only three days.

"The experience left a bad taste in my mouth," said Morris, of Bowie. "It's a double-edged sword. You can't go without coverage, but then when you find better coverage and cancel early they charge you preposterous amounts."

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