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PREMIUM LOAN DELINQUENCY

House Bill 5030 (Substitute H-1)
First Analysis (12-7-93)

Sponsor: Rep. John Jamian
Committee: Insurance

THE APPARENT PROBLEM:

Chapter 15 of the Insurance Code regulates insurance premium finance companies and specifies that a finance agreement can contain a delinquency charge on any installment in default for a period of ten days or more. That delinquency charge may be from $1 up to five percent of the delinquent installment, but not more than $5. The $5 limit has not been raised since it was established in 1968, and many have pointed out that in cases of large premiums, the $5 limit acts to discourage prompt payment: the interest that can be earned on a large delinquent sum can easily exceed the delinquency charge. It has been proposed that the $5 cap be lifted for commercial customers of insurance premium finance companies.

THE CONTENT OF THE BILL:

The bill would amend Chapter 15 of the insurance code to eliminate the $5 cap on delinquency charges under insurance premium finance agreements other than agreements financing insurance contracts primarily for personal, family, or household purposes, and other than agreements financing annual premiums of $10,000 or less for nonprofit organizations. Thus, for commercial customers and larger nonprofit organizations, delinquency charges would be five percent without any overall limit.

(Under a premium finance agreement, an insured or prospective insured promises to pay back the premium payments advanced to an insurance company or agent by a licensed premium finance company plus a service charge. The code limits the service charge to $12 per $100 per year, plus an additional charge of $18. However, if the balance due is less than $100, the maximum service charge would be $15 if the balance is paid in three monthly installments, and $17 if paid in four or five monthly installments.)

MCL 500.1510

FISCAL IMPLICATIONS:

There is no fiscal information at present. (12-6-93)

ARGUMENTS:

For:

By eliminating a $5 cap on delinquency charges, the bill would remove a statutory disincentive to pay an insurance premium loan installment on time. Under the bill, an installment payment overdue by ten days or more would be subject to a five percent delinquency charge. The bill would encourage prompt payment, especially of large installments where interest earned by a delinquent payer can quickly exceed the $5 maximum delinquency charge allowed at present.

Against:

It may be preferable to raise the cap, rather than eliminate it. A five percent delinquency charge may amount to a substantial sum that further hampers an insured's ability to pay the principal and finance charges, particularly if the insured is a struggling shop owner. If the problem is one generated by large companies with large installment payments, perhaps the bill should narrow its focus to apply to them, rather than substantially raising allowable charges for small businesses.

POSITIONS:

The Michigan Association of Premium Finance Companies supports the bill. (12-6-93)