

Premium Finance Board

February 13, 2020

MINUTES

At the call of Assistant Attorney General (AAG) Glenn Kaplan, designee of Attorney General Maura Healey, a meeting of the Premium Finance Board, hereby known as the Board, was called to order at 10:30 a.m. at the Saltonstall Building, Conference Room 2B, 100 Cambridge Street, Boston, Massachusetts.

Also present were other board members Mary Gallagher, Commissioner of Banks and Cara Toomey, Counsel to the Commissioner of Insurance at the Division of Insurance. Cara Toomey is the designee on this Board for the Commissioner of Insurance.

Others present who are staff of the agencies represented on the Board include Heather Bennett, Arwen Thoman, Chloe Williams, and Burt Feinberg.

The first order of business was the opening statements of the Board members. AAG Glenn Kaplan offered a statement, where he explained the purpose of the Board, reiterated the posted agenda, and suggested that the Board proceed by taking up each agenda item sequentially. There were no other opening statements, but Commissioner Gallagher suggested that before proceeding the Board should appoint a Chair. Discussion ensued. Commissioner Gallagher suggested that AAG Kaplan should be the chair. Further discussion ensued. AAG Kaplan indicated that the Attorney General's Office had previously agreed to host the current meeting of the Board and handle related logistical work for the meeting, and that he was willing to serve as Chair for the present. He also indicated that he hoped the Board would in the future revisit the issue of the Chair and might at that time consider rotating the chairmanship amongst the members over time. Commissioner Gallagher then made a motion to appoint AAG Kaplan to be the Chair. Cara Toomey seconded the motion.

On motion duly made and seconded it was:

VOTED: to approve AAG Glenn Kaplan as Chair of the Premium Finance Board.

The Board then proceeded to discuss agenda items sequentially. Discussion of the first agenda item, the current rate ceiling, ensued. Chair Kaplan noted that the current ceiling was 18% and was established in 1984.

Discussion of the second agenda item, which was the movement of the Prime Rate since setting the current rate ceiling, then ensued. Chair Kaplan noted that the Prime Rate was a measure of the interest at which banks made certain business loans, and that it was a measure of competitive interest rates in the market at a given time. He noted that the Prime Rate has been historically used as an interest rate benchmark for various types of loan products. Chair Kaplan noted that at the time the current rate ceiling was set, the prime rate was between 11-13%. Chair Kaplan also noted that the current prime rate was under 5%. He offered an illustrative exhibit, showing the Prime Rate at various points in 1984 and comparing it to the Prime Rate for the current time frame. Commissioner Gallagher noted that the Premium Finance Board had not always had a rate ceiling of 18%, and that in 1982 the rate ceiling was 23%. Commissioner Gallagher noted that at that time, the Prime Rate was 16%. Chair Kaplan noted that it was worth looking at how the rate ceiling historically compared to the Prime Rate. Discussion ensued.

The Board then discussed the next agenda item, which is “the need for premium financing by low income consumers.” Chair Kaplan noted that consumers need to buy insurance and pointed to auto insurance which he said is a necessity for many consumers. He stated that many consumers need a car to get to work and that car loans required insurance. He also discussed the insurance requirements for auto registration. He said that lower income consumers may need premium financing to pay for auto insurance in various circumstances. Commissioner Gallagher noted that premium finance also was used for other lines of insurance, including life insurance, and that many of those consumers may not be lower income. Commissioner Gallagher also inquired how much we knew about whether low-income consumers were raising objections regarding the cost of premium financing and raised the issue of gathering further contextual information. The Chair recognized Arwen Thoman, Deputy Director of the Insurance and Financial Services Division of the AGO, who stated that numerous consumers required premium finance for auto policies because they had missed payments on their policies at some point in the past and were thus required to pay full premiums up front. Ms. Thoman further explained this point, and additional discussion ensued.

Cara Toomey inquired as to whether the Board, in looking at the types and aggregations of loans subject to the rate ceiling, should focus on both the premiums and rates of the insurance that the loans financed. The

Chair recognized mathematician Burt Feinberg of the AGO, who provided information regarding the difference between insurance rates and premiums in this context. Further discussion ensued regarding these various issues and moved into how best to review data and gather information. Some discussion at this point was directed at whether and how the board can determine if there is a problem with the current rate ceiling. Commissioner Gallagher indicated that the Division of Banks had received only three consumer complaints regarding insurance premium finance companies in the past decade, and none were related to rates.

The Board then discussed the next agenda item, how best to review whether the rate ceiling needs adjusting. Chair Kaplan indicated that the job of the board was to ensure that rates were equitable and nondiscriminatory, and that the board needed to have information in order to determine whether or not there was a risk that loans at the current ceiling were meeting this standard. He said that this review was needed as due diligence, to determine whether the existing system in place was working. Chair Kaplan used an illustrative exhibit to set out some types of data that the board may want to gather from premium finance companies. He also said that some of the information may already be in the possession of the agencies represented on the board and might be available for Board review, but also acknowledged that certain information may not be public. Commissioner Gallagher added some additional types of information that might be relevant, and suggested outreach to effected parties to gather qualitative information as well. Cara Toomey indicated that the Division of Insurance might have some information. Chair Kaplan said that if the Division of Insurance did not have certain types of information, it might be able to get that information from CAR or other sources. Further discussion ensued.

Chair Kaplan suggested that each board member consider what types of information might be useful in better understanding the market and might be helpful in analyzing the current rate ceiling. He also suggested that each Board member inventory what types of relevant information their respective agencies held. Discussion ensued. Commissioner Gallagher suggested that the Board set a next meeting date. Discussion then turned to choosing an appropriate date/time, with a focus on the week of April 13th. Chair Kaplan suggested that the Board members provide their schedules for mid-April and availability to AGO staffer Chloe Williams.

Commissioner Gallagher moved to adjourn the meeting, and Cara Toomey seconded the motion.

VOTED: to adjourn at 11:08 a.m.