

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7444

BILL NUMBER: HB 1452

NOTE PREPARED: Apr 9, 2007

BILL AMENDED: Apr 2, 2007

SUBJECT: Various Insurance Matters.

FIRST AUTHOR: Rep. Klinker

FIRST SPONSOR: Sen. Miller

BILL STATUS: As Passed Senate

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Insurance Producers and Policy Forms:* This bill specifies policy form filing requirements for a policy of accident and sickness insurance. It removes the definition of "compensation" from the law concerning compensation to insurance producers or representatives for the sale of long-term care policies.

Unauthorized Alien Insurers: The bill provides for the entry of an unauthorized alien insurance company to transact business in the United States through a U.S. branch that is granted a certificate of authority in Indiana to transact insurance business as if the U.S. branch were a domestic insurance company.

Insurance Education Scholarship: This bill establishes the Insurance Education Scholarship Fund to provide annual scholarships to certain students.

Fee Increases: The bill deposits various insurance filing fees into the Department of Insurance. It increases the internal audit fee for domestic and foreign insurers and health maintenance organizations. It increases the internal audit fee of other entities. It provides that, with certain exceptions, each policy, rider, or endorsement filed with the state constitutes an individual filing for purposes of filing fees. It imposes a filing fee cap. It provides that insurance producer and limited lines producer license renewal fees are due every two years.

Certificates: The bill authorizes the commissioner to issue insurance producer certificates for framing.

Continuing Education: The bill decreases the number of hours of continuing education credit that must be completed for insurance producer license renewal.

Multiple Employer Welfare Arrangement: The bill amends the definition of "multiple employer welfare arrangement" (MEWA) applying to the law regulating MEWAs.

Various Insurance Matters: The bill provides that the Department of Insurance (DOI) sets the amount charged for copies of medical records. The bill specifies requirements for assets in a segregated investment account for a funding agreement. It times preexisting condition provisions in an accident and sickness insurance policy from the effective date rather than the enrollment date. The bill amends various mandated benefit statutes defining "accident and sickness" policy to standardize the list of the types of policies that are not included in the use of the term.

The bill also makes various other amendments concerning accident and sickness insurance policies, travel accident policies, short-term health policies, and long-term care insurance producer compensation. It establishes an interim study committee to create a definition of "health insurance" for purposes of the law concerning accident and sickness insurance and health maintenance organization (HMO) contracts. The bill makes conforming changes.

Resident Surplus Lines Producer Bond: The bill removes the requirement that resident surplus lines producers file a bond with the commissioner.

Commercial Filings: The bill provides an exemption from certain filing requirements for certain insurance issued to a commercial policyholder. The bill requires filing of commercial property and casualty insurance forms for informational purposes. It requires an insurer that issues a commercial property or commercial casualty insurance for an unusual risk of a particular policyholder to maintain and provide the documents at the request of the commissioner. An insurer that changes commercial coverage under a commercial property or commercial casualty policy coverage must provide notice of the change to a policyholder and certain insurance producers.

Effective Date: (Amended) Upon passage; July 1, 2007.

Explanation of State Expenditures: *Summary:* The increase in expenditures is estimated at \$436,000 in FY 2008 and \$335,000 annually in years after.

The funds and resources required could be supplied through existing staff and resources currently being used in another program; authorized, but vacant, staff positions, including those positions that would need to be reclassified; funds that, otherwise, would be reverted; or new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. For FY2006, the DOI reverted almost \$240,000 in state General Fund revenue. The impacts of the various provisions of the bill are discussed in more detail below.

Insurance Producers and Policy Forms--Summary: In order to implement the provisions of the bill, the DOI will need to hire two health insurance policy analysts, two property and casualty analysts, one life insurance analyst, and one commercial policy analyst. Costs for the six additional staff are estimated to be approximately \$315,000 in FY 2008 and \$309,000 annually in years after.

Background Information: The bill requires the DOI to create a document containing a list of all product filing requirements for each type of insurance, with appropriate citations to the law, administrative rule, or bulletin that specifies the requirement, including the citation for the type of insurance to which the

requirement applies. The commissioner must make the document available on the DOI Internet site. The commissioner must update the document at least annually and not more than 30 days following any change in a filing requirement.

The commissioner has 30 days to approve the filing or provide written notice that the commissioner disapproves the filing. A written notice provided by the commissioner must cite specific requirements not met by the filing.

A filer may resubmit an amended filing and correct deficiencies. The commissioner has not more than 30 days to review the resubmission and approve or provide written notice that the commissioner disapproves the resubmitted policy form. The written notice of disapproval must cite specific requirements not met by the filing and must state the reasons in detail. The commissioner's approval or disapproval of a resubmitted policy form is final, except if the filer introduces new provisions or materially modifies a substantive provision of the policy form. The commissioner must issue a final determination in not more than 30 days.

If the commissioner disapproves a policy form filing, the commissioner must notify the filer of the filer's right to a hearing. At any hearing conducted, the commissioner must prove that the policy form contains a material error or omission.

The DOI receives 10,900 property and casualty filings per year. The work load for health insurance is comparable. Life and annuity filings equal about 3,020 in a year. Accident and health filings equal 2,214 filings in a year. In order to implement the provisions of the bill, the DOI will need to hire two health insurance policy analysts, two property and casualty analysts, one life insurance analyst, and one commercial policy analyst. Costs for the six additional staff are estimated to be approximately \$315,000 in FY 2008 and \$309,000 in years after.

Unauthorized Alien Insurers: The DOI will need to hire a 0.5 PATII to implement these provisions of the bill. Costs for 0.5 PATII are estimated at around \$26,000 per year, which includes fringe benefits and office equipment.

(Revised) *Certificates:* Issuing certificates suitable for framing could increase administrative expenses for the DOI by an indeterminable amount. The commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund.

Resident Surplus Lines Producer Bond: Removing the requirement that resident surplus lines producers file a bond with the commissioner will reduce administrative expenses by a minimal amount.

Renewal Licenses: It is possible that the DOI will need to hire additional staff in FY 2010 to handle the shortened license renewal cycle. Any additional increase could be paid from additional revenues generated.

Commercial Filings: This provision of the bill should have little, if any, impact on the DOI. It is possible that the commissioner will receive requests for exemptions. The qualifying insurer must provide the documents to the commissioner at the commissioner's request, which may reduce by a minimal amount administrative costs associated with document retention at the DOI.

Various Insurance Matters: Administrative expenses of the DOI would be affected to the extent that the DOI would have to change rules and notify interested parties of the changes or clarifications. However, it is expected that the DOI would be able to cover any additional expenses given its existing level of budget and

resources.

Insurance Education Scholarship: The impact depends on the number of students studying insurance or business with an emphasis on insurance. SSACI's reported average amount for four-year public college tuition and fees for FY 2007 is \$5,473 and is projected to be about \$5,800 for FY 2008. For each 100 students who are provided a scholarship of \$5,800, the cost would be about \$580,000. SSACI could also have some increase in administrative expenses that would be paid from the Insurance Education Scholarship Fund. The source of revenue for the fund is fees collected for the purchase of framed certificates.

Interim Study Committee: The bill establishes the Health Insurance Interim Study Committee. The committee must operate under the policies governing study committees adopted by the Legislative Council. The committee must submit a final report to the Legislative Council not later than October 31, 2007. The committee expires December 31, 2007. Interim study committees are subject to an annual \$9,500 budget for a committee of 8 members. Per diem, mileage, and travel allowances are paid from state General Fund appropriations made to the Legislative Council or the Legislative Services Agency (LSA). LSA would provide administrative support.

Explanation of State Revenues: (Revised) *Summary of Increased Fees and Two-year License Renewal*–

<i>FY 2008</i>	Increased Fee for Internal Audit and Product Filing Fee	Two-Year License Renewal	Transfer of Existing Filing Fees
State General Fund	-	(\$1.18 M)	(\$739,500)
DOI Fund	\$2.8 M	\$1.18 M	\$739,500
<i>FY 2009</i>			
State General Fund	-	(\$1.9 M)	(\$739,500)
DOI Fund	\$2.8 M	\$1.9 M	\$739,500
<i>FY 2010</i>			
State General Fund	-	(\$3.1 M)	(\$739,500)
DOI Fund	\$1 M	\$4.3 M	\$739,500
The DOI is funded through both the state General Fund and the DOI Fund. For each year of the 2005-2007 biennium, the DOI received \$3.4 M from the state General Fund and \$2.3 M from the DOI fund.			

(Revised) *Increased Fee for Internal Audit and Product Filing Fee:* New revenue for the DOI fund will consist of increased fees for internal audits, which should total a little over \$1 M, and new revenue generated by the \$35 product filing fee, which should total an estimated \$1.8 M. Starting in FY 2010, the product filing fee will drop back to \$35 per filing, which will generate about \$630,000. (At this point, the two-year renewal revenue from agent licenses will increase.) These fees are currently deposited in the DOI Fund. They will continue to be deposited in this fund. The total increase in revenue to the DOI Fund from these increased fees is equal to \$2.8 M for each of FY2008 and FY2009. In FY 2010 and thereafter revenue will return to current levels.

Two-Year License Renewal: The bill provides that insurance producer and limited lines producer license renewal fees are due every two years rather than every four years. The bill provides that the fees are deposited in the DOI Fund. Currently, renewal fees are deposited into the state General Fund. Revenue generated from new agent fees, which equals about \$1.7 M per year, would continue to be deposited in the state General Fund.

The impact of changing the renewal licenses from a 4-year to a 2-year is outlined below. These estimates are based on licensee information currently in the DOI database.

For FY 2008, the renewal license fees will generate an estimated \$1.18 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.18 M.

For FY 2009, the renewal fees will generate an estimated \$1.9 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.9 M.

For FY 2010, the renewal license fees will generate an estimated \$4.3 M to be deposited into the DOI Fund, of which, \$3.1 M would have otherwise been deposited in the state General Fund and \$1.2 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

For FY 2011, the renewal license fees will generate an estimated \$4.2 M to be deposited into the DOI Fund, of which, \$2.3 M would have otherwise been deposited in the state General Fund and \$1.9 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

	Resident Producer	Non-Resident Producer	Totals
FY 2008			
Agents (existing licenses that expire this fiscal year)	5,725	10,573	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$229,000	\$951,570	\$1,180,570
FY 2009			
Agents (existing licenses that expire this fiscal year)	11,247	16,206	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$449,880	\$1,458,540	\$1,908,420
FY 2010			
Agents up for 1 st 2-year renewal	17,775	26,586	
Agents up for 2 nd 2-year renewal	<u>5,725</u>	<u>10,573</u>	
Subtotal	23,500	37,159	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$940,000	\$3,344,310	\$4,284,310
FY 2011			
Agents up for 1 st 2-year renewal	8,989	15,337	
Agent up for 2 nd 2-year renewal	11,247	16,206	
Agents who last renewed between Jan-Jun 2007	<u>3,448</u>	<u>4,931</u>	
Subtotal	23,684	36,474	
	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$947,360	\$3,282,660	\$4,230,020

Transfer of Fee Revenue from the State General Fund to the DOI Fund - Filing Fees: The bill deposits fees for certificates, articles of incorporation, utilization reviews, medical claims, company admissions and other filing fees into the DOI Fund rather than the state General Fund. For FY 2006, \$737,554 was deposited into the state General Fund from these fees. For FY2008, FY2009, and FY2010, these fees will generate an estimated \$739,500 per year. Revenue to the state General Fund will be reduced by \$739,500 per year.

Increased Fee for Internal Audit and Product Filing Fee: The bill increases the internal audit fee for domestic and foreign insurers and HMOs from \$350 to \$1,000. It increases the internal audit fee of other entities from \$100 to \$250. Currently, the fees generate about \$700,000 per year. With the fee increases, additional revenue generated will equal an estimated \$1 M. This projection is based on the number of admitted companies, or 1,751. Of this total, 1,625 will experience an increase of \$650 (\$1,000 - \$350), which will generate \$1 M. The remaining 126 insurers will pay an additional \$150 (\$250 - \$100), which will generate \$18,900. The total new revenue is estimated at a little over \$1 M.

This new revenue would be deposited in the DOI Fund. Under existing law, this fee is deposited into the DOI Fund. This provision will not effect the state General Fund.

The bill also provides that each policy, rider, or endorsement filed with the state constitutes an individual filing for purposes of the \$35 product filing fee. It imposes a \$1,000 cap per filing per insurer for product filing fees. The bill provides for the deposit of fees into the DOI Insurance Fund.

Each year the DOI receives approximately 10,900 Property & Casualty filings, 15% of which would qualify

for the aggregate limit of \$1,000. This provision would generate \$1.6 M. ($10,900 * 0.15 = 1,635 * \$1,000 = \$1,635,000$).

The remaining Property and Casualty filers would equal 9,265. If this subtotal were added to Life and Annuity filings, which equaled 3,020 per year, and added to Accident and Health filings, which equaled 2,214, the total number of additional filers would equal 14,499. Assuming that 50% of these smaller filers will file one additional form, revenue generated would equal \$253,732.

Total new revenue from the Product Filing Fee would equal \$1,888,732. This new revenue would be deposited in the DOI Insurance Fund. Under existing law, this fee is deposited into the DOI Insurance Fund. This provision will not effect the state General Fund.

Continuing Education: Reducing the number of continuing education hours of credit that producers must complete could result in an increase in the number of applicants for license renewals which could increase license fee revenue by an indeterminable amount.

Insurance Education Scholarship Fund: The bill authorizes the DOI commissioner to issue certificates suitable for framing to insurance producers. The commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund. The amount of revenue that will be generated from fees is indeterminable.

Unauthorized Alien Insurers: The amount of additional renewal fees that the DOI would collect would depend on the number of U.S. branches that operate in the state.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: SSACI, LSA, DOI.

Local Agencies Affected:

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