

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3255-01
Bill No.: HB 834
Subject: Insurance - General; Insurance - Property; Insurance Dept. Property, Real and Personal
Type: Original
Date: January 19, 2004

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|-----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Insurance Dedicated | \$11,250 | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on <u>All</u> State Funds | \$11,250 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|------------|------------|------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance (INS)** state residential property policies must be rewritten to say that weather-related claims will not be used to non-renew or cancel the policy. Policy for amendments must be reviewed by the INS and accompanied by a \$50 filing fee. This fee is deposited into the Insurance Dedicated Fund. The INS estimates that 225 insurers will be required to file policy amendments. One-time revenues are estimated to be \$11,250 (225 insurers X \$50).

This proposal will result in an increase in Total State Revenue.

| <u>FISCAL IMPACT - State Government</u> | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|------------------------|-------------------|-------------------|
| INSURANCE DEDICATED FUND | | | |
| <u>Income - Department of Insurance</u> | | | |
| Policy form filing fees | <u>\$11,250</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND | <u>\$11,250</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Local Government

FY 2005
(10 Mo.)

FY 2006

FY 2007

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small business insurance companies could be impacted by this proposal.

DESCRIPTION

This proposal makes several changes to the laws governing property insurance and the Basic Property Insurance Inspection and Placement Program. Regarding property insurance in general, the proposal: (1) Clarifies that the definition of a property insurance "claim" does not include an inquiry as to whether a particular loss is covered by the policy; (2) Prohibits property insurers from using an inquiry of whether a particular loss is covered as a basis for the non-renewal of a policy; (3) Requires that when a property insurance policy is canceled because of an increase in risk due to a physical change in the property, that physical change must be "significant"; (4) Increases the notice period for cancellation of a property insurance policy from 30 days to 60 days; (5) Prohibits a property insurer from citing a generalized term of "poor credit history" when explaining the reason for cancellation or non-renewal of a policy; (6) Prohibits insurers from using "weather-related claims" as a basis for non-renewal of a policy. A weather-related claim is defined as any loss resulting from an act of God which an insured is unable to reduce the risk; and (7) Prohibits property insurers from using a rating system that surcharges an insured for weather-related claims or inquiries regarding coverage.

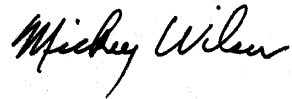
Regarding the Basic Property Insurance Inspection and Placement Program, the proposal: (1) Changes the name of the Basic Property Insurance Inspection and Placement Program to the Fair Access to Insurance Requirements (FAIR) Plan; (2) Increases the maximum liability limits for the plan from \$100,000 to \$300,000 for residential property and from \$1 million to \$3 million for commercial property; (3) Requires the "facility" (the association of insurers that administers the FAIR Plan) to provide, upon request, a list of all those insured by the plan; (4) Makes all policies issued under the FAIR Plan subject to the Unfair Claim Settlement Practices Act and the Unfair Trade Practices Act; (5) Requires that when a policy is canceled because of a physical change in the property, the Department of Insurance must be provided a copy of the findings at least 10 days before the cancellation takes effect; (6) Requires that the facility must provide the insured with the actual reason for any cancellation or non-renewal. The reason must be given in clear and specific language that a person of normal intelligence can understand; and (7) Adds two members to the governing committee of the facility to represent consumers.

ASSUMPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 19, 2004