

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1769-02
Bill No.: HB 735
Subject: Insurance - General; Insurance Department
Type: Original
Date: April 5, 2013

Bill Summary: This proposal changes certain requirements for the regulation of insurance business.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Insurance Dedicated	(\$672,289)	(\$728,122)	(\$735,942)
Total Estimated Net Effect on Other State Funds	(\$672,289)	(\$728,122)	(\$735,942)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Insurance Dedicated	10	10	10
Total Estimated Net Effect on FTE	10	10	10

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Administrative Hearing Commission** assume the current proposal would not fiscally impact their agency.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** assume the following:

Sections 375.920:

This proposal would reduce the review deadline from 60 to 45 days for private passenger auto, homeowners and dwelling policy forms and modify the department's duties and ability to ensure compliance with state law, if a noncompliant provision is identified after this time period. For example, if a provision is contrary to Missouri law and was not caught during the department's initial review, this legislation would prohibit the director from requiring an insurer to amend a previously filed and approved form that was later found to be non-compliant, unless the non-compliance results from a court case or change in state law. The department will have to focus greater resources to the front end review of policy forms to ensure all potential compliance issues are identified and addressed.

Reducing the review time and modifying the department's duties and enforcement authority will require additional staffing to ensure policies are in compliance with state statutes and regulations. A minimum of three additional FTEs are needed to ensure compliance before the policies are deemed approved - two (2.00) Insurance Product Analyst II FTEs will be needed to review policy filings, and one (1.00) Attorney FTE required to review policy compliance with state statute and regulations. If the filing workload is greater than anticipated, additional appropriation and FTE will be requested through the budget process.

Sections 376.405:

This proposal would institute a review deadline of 45 days for health policy forms and modify the department's duties and ability to ensure compliance with state law, if a noncompliant provision is identified after this time period. For example, if a provision excluding a state mandated benefit were not caught during the department's initial review, this legislation would prohibit the department from directing the health carrier to make consumer or provider restitution for those unpaid benefits, or to pay fines based on that behavior. The department will have to focus greater resources to the front end review of policy forms to ensure all potential compliance issues are identified and addressed.

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ASSUMPTIONS (continued)

Reducing the review time and modifying the department's duties and enforcement authority will require additional staffing to ensure policies are in compliance with state statutes and regulations. A minimum of five to eight additional FTEs are needed to ensure compliance before the policies are deemed approved - two (2.00) Insurance Product Analyst II FTEs will be needed to review group health policy filings, one (1.00) Insurance Product Analyst II FTE will be needed to review individual health policy filings, one (1.00) Attorney FTE and one (1.00) Senior Office Support Assistant FTE are required to review policy compliance with state statute and regulations. If the filing workload is greater than anticipated, additional appropriation and FTE will be requested through the budget process.

Sections 382.010 - 382.277:

The proposal requires more extensive analysis by the insurance department and interaction with international regulators through participation and hosting of supervisory colleges. The department does not currently have staff with an understanding of advanced risk management strategies or the man hours available to complete the in-depth review and work with the supervisory colleges.

Missouri is the lead state for 18 active holding companies that contain 40 domestic insurers. We will be responsible for conducting analysis not only on an entity level but will be responsible for coordinating review of the entire holding company system. Missouri also regulates 40 insurers that are part of holding companies and Missouri will be responsible for participating and providing information to other states regarding ERM and holding company review. The new in-depth analysis and ERM review will require a full time dedicated risk management specialist.

Missouri is the lead international regulator of two international holding companies and the lead US regulator for another. Additional review work and responsibilities will be required to host and attend supervisory colleges with international regulators. The in-depth knowledge of US and international insurance accounting and regulation will require a full time examiner level specialist.

Therefore, the department is requesting 2 Insurance Examiner IIIs with in-depth knowledge of US and international insurance accounting and regulations to review the new form F filings and coordinate, attend, monitor supervisory colleges and the information generated for and from them.

In total, DIFP assumes the need for at least ten new FTE and corresponding expenses at an annual cost of at least \$735,000 to the Insurance Dedicated Fund.

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<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
INSURANCE DEDICATED FUND			
<u>Costs - DIFP</u>			
Personal Service	(\$373,782)	(\$453,023)	(\$457,554)
Fringe Benefits	(\$197,506)	(\$239,377)	(\$241,772)
Equipment and Expense	<u>(\$101,001)</u>	<u>(\$35,722)</u>	<u>(\$36,616)</u>
<u>Total Costs - DIFP</u>	<u>(\$672,289)</u>	<u>(\$728,122)</u>	<u>(\$735,942)</u>
FTE Change - DIFP	10 FTE	10 FTE	10 FTE
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(\$672,289)</u>	<u>(\$728,122)</u>	<u>(\$735,942)</u>
Estimated Net FTE Change on the General Revenue Fund	10 FTE	10 FTE	10 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation changes the requirements and demands of insurance business regulations by the Department of Insurance, Financial Institutions and Professional Registration.

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

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SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration
Administrative Hearing Commission



Ross Strope
Acting Director
April 5, 2013

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