

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 1612

SPONSOR: Banking and Insurance Committee and Senator Diaz-Balart

SUBJECT: Credit Life or Disability Insurance

DATE: March 20, 2000 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Emrich</u>	<u>Deffenbaugh</u>	<u>BI</u>	<u>Favorable/CS</u>
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The Insurance Code provides for limited licenses under which persons are authorized only to sell a particular kind of insurance under specific circumstances. In some cases, a limited license may be issued to a business entity rather than an individual, such as a finance company or automobile dealership, however, each branch office of that entity and entity employee must be licensed to sell the insurance. One such limited license category is credit life or disability insurance which provides coverage for the credit holder's debt in case of death or disability.

Committee Substitute for Senate Bill 1612 provides that an entity, including a financial institution, holding a credit life or disability license, may sell credit insurance. Credit insurance, as opposed to credit life or disability insurance, insures against loss or damage resulting from the failure of the debtor to pay his or her obligation to a creditor. The bill provides that officers of the entity (sole proprietor, majority owner, partners, officers or directors) applying for credit life or disability licensure with the Department of Insurance do not have to submit fingerprints with an application, if such entity is regulated by certain state or federal agencies.

The bill further deletes the requirement that such entity obtain a separate license or appointment for each of its branch offices. However, the licensed entity must file in an electronic format with the department annually by January 1st, the address and telephone number of each place of business at which credit insurance is marketed or sold. The licensee must also file with the department any changes, additions, or deletions regarding each place of business marketing or selling credit insurance within 30 days after such change. Also, a copy of the license must be visibly displayed at each business location at which employees are selling insurance authorized under the entity's license.

Finally, the bill provides that if the sale of credit life insurance is solicited or consummated telephonically, the creditor or agent must provide disclosures to the borrower within 30 days from the date the coverage takes effect. The borrower has 30 days from the date the disclosures are received to rescind the credit life insurance coverage.

This CS amends the following sections of the Florida Statutes: 626.321 and 627.679.

II. Present Situation:

Under current law, the Department of Insurance is authorized to issue to a qualified individual or entity a limited license to transact a particular class of insurance (s. 626.321, F.S.). Such limited lines agents are subject to background investigations, including fingerprinting, when they apply for their license, but are not required to take a licensure examination or take continuing education courses to maintain their limited license. Limited lines agents may not hold a license as an agent as to any other or additional kind or class of insurance coverage. A limited license may also be issued to a business entity, such as a finance company or auto dealership, however, each branch office of that entity and each entity employee has to currently be licensed to sell insurance.

One such limited lines license category is credit life or disability insurance which provides coverage for the credit holder's debt in case of death or disability. For example, if a person buys a car and finances it, the lender may offer the individual credit life insurance which would pay off the automobile should the borrower die.

An individual holding a limited license covering credit life or disability insurance must be employed by a life or health insurer as an officer or other salaried or commissioned representative, or employed by or associated with a lending or financial institution or creditor, and may sell such insurance only with respect to borrowers or debtors of such lending or financial institution or creditor. Presently, an entity holding a credit life or disability license, other than a financial institution, may sell credit property insurance. Credit property insurance is a limited line of insurance in which personal property is used as collateral for securing a loan or on personal property purchased under an installment sales agreement.

Entities applying for credit life or disability licensure must submit an application (including fingerprints of specified partners or officers) to the department as well as obtain a license for each separate branch or business office. Such license must be posted at each office location.

Another category of limited lines insurance is credit insurance which covers against loss or damage resulting from the failure of the debtor to pay his or her obligation to a creditor.

Currently, financial institutions like banks are issuing what are termed "debt cancellation/deferment agreements" which are not deemed insurance and are not subject to state insurance regulation. These types of contracts are between the borrower and creditor that cancel or suspend a debt because of events such as death, unemployment, or disability. According to proponents of this CS, these financial institutions who offer these debt or deferment agreements have a competitive advantage over entities offering traditional credit insurance because such financial institutions are not burdened by state regulation.

Section 627.679, F.S., specifies disclosure criteria for the sale of credit life insurance sales which include a separate written acknowledgment for assigning the policy, deferring coverage, and benefit termination.

III. Effect of Proposed Changes:

Section 1. Amends s. 626.321, F.S., relating to limited licenses, to provide that an entity, including a financial institution defined under s. 655.005(1)(g), (h), or (p), holding a credit life or disability license may also be authorized to sell credit insurance.¹ (The statute currently allows credit life or disability license holders to sell credit property insurance.) It provides that officers of an entity (sole proprietor, majority owner, partners, officers or directors) applying for credit life or disability licensure with the Department of Insurance do not have to submit fingerprints with an application, if the entity is regulated by certain state or federal agencies (Office of the Comptroller of the Currency, the Securities and Exchange Commission, or the Department of Banking and Finance).

The CS further deletes the requirement that such entity obtain a license or appointment for each of its offices or branch offices. However, the licensed entity must file in an electronic format with the department annually by January 1st, the address and telephone number of each place of business at which credit insurance is marketed or sold. The licensee must also file with the department any changes, additions, or deletions regarding each place of business marketing or selling credit insurance within 30 days after such change. It provides that a copy of the license must be visibly displayed at each business location at which employees are selling insurance authorized under the entity's license.

Section 2. Amends s. 627.679, F.S., applying to credit life insurance disclosures, to provide that, notwithstanding the existing disclosures, if the sale of credit life insurance is solicited or consummated telephonically, the creditor or agent must provide disclosures to the borrower within 30 days from the date the coverage takes effect. The borrower has 30 days from the date the disclosures are received to rescind the credit life insurance coverage.

Section 3. Provides for the act to take effect July 1, 2000.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

¹Chapter 655, F.S., regulates the activities of financial institutions and s. 655.005(1)(g), F.S., defines "federal financial institutions"; s. 655.005(1)(h) defines "financial institutions"; and, s. 655.005(1)(p), defines "state financial institutions".

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The provision to allow disclosures to take place 30 days after the effective date of the credit insurance policy, if the sales transaction is via telephone, could result in the consumer not having sufficient knowledge about the product just purchased. However, such consumers would have 30 days from the date the disclosures are received to rescind their coverage.

Companies that sell credit life or disability insurance and credit property insurance would benefit because they can now offer credit insurance to consumers. Additionally, licensed entities with branch offices will have lower licensure/appointment expense as these branch office licenses are no longer required. According to the Department of Insurance, agents who today have multiple credit licenses would be able to reduce expense by holding the single "credit license" created by this bill.

Additionally, companies offering credit insurance would not have to obtain fingerprints from their officers during the licensure process if such entities are regulated by certain state or federal agencies.

C. Government Sector Impact:

According to the Department of Insurance, there will be "some reduction in revenue" to the department, but it cannot estimate a specific dollar amount in affected revenue sources. Branch offices of a licensed/appointed entity will no longer be required to be licensed/appointed and three licensure categories are now being collapsed into the single category "credit insurance" licensure. Some minor reduction in revenue will come from the reduction in license/appointment fees.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
