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HOUSE OF REPRESENTATIVES
COUNCIL FOR COMPETITIVE COMMERCE
ANALYSIS

BILL #: HB 1607
RELATING TO: Department of Insurance
SPONSOR(S): Representative Bennett
TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) INSURANCE YEAS 13 NAYS 0
- (2) HEALTH PROMOTION YEAS 8 NAYS 0
- (3) COUNCIL FOR COMPETITIVE COMMERCE
- (4)
- (5)

I. SUMMARY:

The 1999 Legislature amended the Administrative Procedure Act to limit agency rulemaking authority to rules implementing or interpreting "specific powers and duties" granted by statute. HB 1607 codifies the substance of a number of Department of Insurance rules, and, in other instances, grants the department specific statutory authority to adopt certain rules currently in force. The bill grants the department authority to adopt numerous rules, including rules relating to market conduct examinations, the licensing process for agents and other representatives, administration of claims, provision of first dollar coverage to third-party claimants without a deductible in commercial motor vehicle policies issued to satisfy mandatory financial responsibility requirements of state or local government, borrower notification in single interest insurance, and use of department forms in certain rate filings.

This bill has no fiscal impact on state government.

Strike-all amendment by the Committee on Insurance as amended by the Committee on Health Promotion:

There is a strike-all amendment by Insurance, and an amendment to the amendment by Health Promotion, traveling with the bill. As described in further detail in Part VI of this analysis, the amendment:

- Requires the department to adopt rules for market conduct examinations and to effectuate the agent licensing process.
- Prohibits a motor vehicle insurer from unfairly discriminating based solely on the location of the risk or on accidents more than 3 years old.
- Requires certain commercial motor vehicle policies to provide first-dollar coverage to third-party claimants.
- Requires actuarial justification for surcharges or discounts based on the type of vehicle.
- Provides a detailed code of conduct for residual market board members.
- Provides a 10-day right of review and return for health insurance policies.
- Provides a rule of construction for group policies.
- Specifies the disputed property insurance claims that are eligible for mediation.
- Specifies the notice that must accompany a motor vehicle policy that excludes liability and PIP coverage.
- Specifies circumstances in which a title insurance commitment must be issued.
- Specifies disclosures required in connection with single-interest policies issued in connection with loans.
- Requires adoption of rules for approval of electronic reporting formats.
- Clarifies a statutory conflict over HMO reimbursement for emergency services.
- Requires certain notice in connection with nonrenewals of HMO group contracts.
- Requires adoption of rules governing use of a consumer's nonpublic financial and health information.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1. Less Government Yes No N/A

The bill grants the Department of Insurance specific rule making authority. In some instances, the current rules of the Department of Insurance would be codified.

2. Lower Taxes Yes No N/A

The bill requires that all fees under the State Employees' Deferred Compensation Program administered by the Division of Treasury within the Department of Insurance be paid by the investment providers and be recouped by their plan participants.

3. Individual Freedom Yes No N/A

4. Personal Responsibility Yes No N/A

5. Family Empowerment Yes No N/A

B. PRESENT SITUATION:

In 1996, the Legislature significantly revised the Administrative Procedure Act (APA) to require executive branch agencies to adhere to statutory authority when adopting rules. The 1996 amendments created a new section, s. 120.536(1), F.S., requiring existing and proposed rules to "implement or interpret the specific powers and duties granted by the enabling statute."

The Legislature recognized that imposing a new statutory standard to determine the validity of rules might suddenly invalidate many rules previously adopted by the agencies under the previous standard. Rather than immediately invalidate these rules, the Legislature in the 1996 reform legislation required each agency to examine all of its rules adopted prior to the effective date of the 1996 amendments, in light of the new standard, and report to the Joint Administrative Procedures Committee which rules exceeded the new standard.

Rules identified by the agencies were temporarily shielded from legal challenges on the grounds that they exceeded rulemaking authority under the new standard. This shield left these rules in place during the 1998 legislative session, allowing the Legislature to determine which policies established by these rules should be codified. If legislation enacted during the 1998 session provided statutory support for the rule, it remained in effect. If no such legislation was enacted, agencies were directed to initiate repeal of these rules by January 1, 1999.

In 1999, the Legislature again amended the Administrative Procedure Act standard authorizing an agency to adopt only rules that implement or interpret "specific powers and duties" granted by statute. The Legislature again recognized that revising the standard might invalidate rules adopted or reviewed under a different interpretation of the 1996 standard.

In the 2000 session, the Legislature was required to consider whether specific legislation authorizing the identified rules, or portions of these rules, should be enacted. For any rule not authorized, the agency was to have initiated proceedings by January 1, 2001, to repeal the rule.

The Joint Administrative Procedures Committee or any substantially affected person may petition for repeal of an identified rule after July 1, 2001.

C. EFFECT OF PROPOSED CHANGES:

Specific statutory authority would be granted to the Department of Insurance (department) for various rules or portions of rules identified by the department as lacking the requisite statutory authority. Other department rules lacking the requisite statutory authority would be codified in statute.

For a detailed discussion of the department rules for which the bill provides specific statutory authority or which are being codified in statute, see the SECTION-BY-SECTION ANALYSIS.

D. SECTION-BY-SECTION ANALYSIS:

Section 1. Amends s. 112.215, F.S., relating to government employees deferred compensation program.

Present Situation: The Department of Insurance (department) has a rule relating to the State Employees Deferred Compensation Plan (Rule 4C-6.003, Florida Administrative Code, F.A.C.). This rule prescribes forms that are used in the plan, but makes no provision for funding of the plan.

Effect of Section: Section 112.115, F.S., would be amended to provide that the cost of the deferred compensation program would be wholly or partially self-funded and the fees for self-funding would be paid by investment providers and could be recouped from their participants.

Section 2. Amends s. 624.3161, F.S., relating to market conduct examinations.

Present Situation: The department has rules relating to insurer and agent conduct in handling and settling property insurance claims (Rules 4-166.023, 4-166.026, 4-166.027, and 4-166.028, F.A.C.).

Effect of Section: Rulemaking authority would be created allowing the department to adopt rules to administer market conduct examinations, including rules enabling the department to ascertain compliance with chapters 624, 626, 627, 634, 635, 642, and 651, F.S.

Section 3. Amends s. 626.171, F.S., relating to application for license.

Present Situation: The department has adopted rules relating to the insurance company representative licensure process. These rules govern the type of photo identification required and the exemptions from that requirement, character and credit reports required of the applicant, prelicensing courses, and the affect of law enforcement records on applications for licensure (Chapter 4-211, F.A.C.). The purpose of this rule chapter is to establish procedures and adopt forms for insurance company representative licensing under the provisions of chapter 626, F.S.

Effect of Section: The department would be given specific authority to adopt rules regarding the license application process, including photo identification, character and credit reports, prelicensing courses, the impact of criminal and law enforcement history, in order to determine an applicant's ability to engage in the business of insurance.

Section 4. Amends s. 626.748, F.S., relating to agent's records.

Present Situation: The department has a rule requiring insurers to maintain records of all insurance policies issued, including the name and address of the insureds, the beneficiaries, and the coverage provided (Rule 4-184.004, F.A.C.).

Effect of Section: The substance of Rule 4-184.004, F.A.C., would be codified in statute, but the record keeping requirements from the rule would be applied to "transacting agents" rather than insurers.

Section 5. Amends s. 626.9541, F.S., relating to unfair methods of competition and unfair or deceptive acts or practices defined.

Present Situation: The department has several rules relating to unfair discrimination in premiums charged for private passenger motor vehicle insurance (Rule 4-175.007, location of risk; Rule 4-175.008, accidents more than 3 years old; and Rule 4-175.009, type of vehicle). Under Rule 4-175.009, F.A.C., insurers may include a surcharge or discount based on the type of vehicle, if the insurer provides statistical justification for the surcharge or discount.

Effect of Section: The substance of Rules 4-175.007, 4-175.008, and 4-175.009, F.A.C., would be codified in the unfair trade practice section of law. The codification of Rule 4-175.009, F.A.C., would not include the exception for insurers providing statistical evidence for the surcharge or discount.

Section 6. Creates s. 626.9552, F.S., relating to single interest insurance.

Present Situation: The department has rules relating to single interest insurance written in connection with a finance or loan transaction (Rules 4-184.016 and 4-184.019, F.A.C.). Single interest insurance protects lenders in situations where the loan collateral is damaged and the borrower has failed to maintain insurance. These rules require notification to the borrower that this type of insurance has been written at the expense of the borrower to protect the collateral of the lender.

Effect of Section: The substance of Rules 4-184.016 and 4-184.019, F.A.C., would be codified in statute.

Section 7. Amends s. 627.062, F.S., rate standards.

Present Situation: The department has a rule prescribing the forms used in property and casualty insurance rate filings (Rule 4-170.013, F.A.C.).

Effect of Section: Section 627.062, F.S., would be amended to require that rate filings be in a manner and on forms prescribed by the department, thereby codifying Rule 4-170.013, F.A.C.

Section 8. Amends s. 627.0625, F.S., relating to commercial property and casualty risk management plans.

Present Situation: The department has a rule establishing standards for deductibles in commercial motor vehicle insurance policies issued to satisfy mandatory financial responsibility requirements of state or local government and requiring insurers to provide first dollar coverage to third-party claimants (Rule 4-175.011, F.A.C.).

Effect of Section: Authority would be provided for the department to enact rules “necessary to assure the proper administration of claims and protection of third-party claimants from unfair policy defenses not attributable to the third-party claimant.” Similarly, the section of Rule 4-175.011, F.A.C., requiring insurers to provide first dollar coverage to third-party claimants without a deductible in commercial motor vehicle insurance policies issued to satisfy mandatory financial responsibility requirements of state or local government, would be codified in s. 627.0625, F.S.

Section 9. Creates s. 627.385, F.S., conduct of residual market board members.

Present Situation: The department has a rule governing the conduct of the members of the boards of the following joint underwriting associations (JUAs): Florida Medical Malpractice JUA, Florida Auto JUA, Florida Comprehensive Health Association, Florida Windstorm Underwriting Association, Florida Property and Casualty JUA, and Florida Residential Property and Casualty JUA (Rule 4J-4.002, F.A.C.). Board members are prohibited from acting as a servicing carrier or an administering entity for the JUA, using their position for financial gain, and receiving gifts.

Effect of Section: The substance of Rule 4J-4.002, F.A.C., would be codified in statute. Section 627.385, F.S., also would include legislative findings speaking to the need for coverage from the residual market associations to be provided and administered in a manner balancing the needs of consumers and member insurers. The legislative findings also state that the provisions of s. 627.385, F.S., are necessary to protect the public interest.

Section 10. Creates s. 627.4065, F.S., relating to health insurance policy notice and insured's right to return.

Present Situation: The department has a rule requiring insurers issuing disability policies in this state to disclose to insureds that they have 10 days to return the policy for a full refund (Rule 4-154.003, F.A.C.).

Effect of Section: The substance of Rule 4-154.003, F.A.C., would be codified in statute, but would apply only to health insurance policies issued in this state.

Section 11. Amends s. 627.7276, F.S., relating to notice of limited coverage.

Present Situation: The department has rules requiring automobile policies not containing bodily injury and property damage coverage be clearly stamped or specifically printed on the declaration page of the policy that those coverages are not provided (Rules 4-184.011 and 4-184.012, F.A.C.). Section 627.7276, F.S., currently requires motor vehicle policies not containing bodily injury or property damage liability to be stamped with printed notice.

Effect of Section: The substance of Rules 4-184.011 and 4-184.012, F.A.C., would be codified in statute.

Section 12. Creates s. 627.795, F.S., relating to policy exceptions.

Present Situation: The department has a rule requiring a title insurance commitment to be issued on all real estate closing transactions when a title insurance policy is to be issued, except when there are multiple conveyances on the same property (Rule 4-186.011, F.A.C.). A title insurance commitment sets forth the status of the title and the commitment of the insurer to issue a policy.

Effect of Section: The substance of Rule 4-186.011, F.A.C., would be codified in statute.

Section 13. Amends s. 627.918, F.S., relating to reporting formats.

Present Situation: The department has a rule requiring insurers to report certain information on forms established by the department (Rule 4-171.002, F.A.C.).

Effect of Section: Statutory authority would be provided allowing the department to establish by rule standards for approving forms.

Section 14. Amends s. 627.9408, F.S., relating to rules.

Present Situation: Sections 627.9401 through 627.9408, F.S., regulate long-term care insurance policies, in regard to rates, policies, and standards. The department is given general rulemaking authority for this part under s. 627.9408, F.S. The department has rules regulating long-term care insurance (Rules 4-157.001 – 4-157.022, F.A.C.).

Effect of Section: Section 627.9408, F.S., would be amended to give the department the authority to adopt by rule, the model regulation for long-term care insurance adopted by the National Association of Insurance Commissioners in June 2000.

Section 15. Amends s. 641.2342, F.S., relating to contract providers.

Present Situation: The department has a rule that subjects any contract providers to financial examination, if deemed necessary by the department (Rule 4-191.073, F.A.C.).

Effect of Section: Rule 4-191.073, F.A.C., would be codified in s. 641.2342, F.S.

Section 16. Amends s. 641.31, F.S., relating to health maintenance contracts.

Present Situation: The department has a rule governing health maintenance organizations and the payment of claims for emergency care (Rule 4-191.048, F.A.C.). Health maintenance organizations are required to pay providers or reimburse the subscribers. Health maintenance organizations also must include instructions for the subscriber to follow in contracts and member handbooks to secure emergency care.

Effect of Section: Rule 4-191.048, F.A.C., would be codified in s. 641.31, F.S.

Section 17. Amends s. 641.3108, F.S., relating to notice of cancellation of contract.

Present Situation: The department has a rule prohibiting health maintenance organizations from canceling individual or group contracts except for nonpayment of premium or termination of eligibility. The rule also allows a subscriber group contract that is not renewed due to claims experience to receive the loss ratio of the group (Rule 4-191.043, F.A.C.).

Effect of Section: Rule 4-191.043, F.A.C., would be codified in s. 641.3108, F.S.

Section 18. Provides an effective date of October 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Section 1 of this bill would require the State Employees' Deferred Compensation Program to be self-funded. Investment providers participating in the program could recoup these fees from their participants.

D. FISCAL COMMENTS:

Section 1 of this bill would require the State Employees' Deferred Compensation Program to be self-funded. Investment providers participating in the program could recoup these fees from their participants.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None

B. RULE-MAKING AUTHORITY:

This is a rule authorization bill. In 17 sections, this bill either establishes specific rulemaking authority or codifies existing rules of the Department of Insurance.

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On April 4, 2001, the Committee on Insurance adopted a "strike everything" amendment by Rep. Bennett that is traveling with the bill. The amendment removed the following sections from HB 1607:

- Section 1 (s. 112.215, F.S., relating to the State Employee Deferred Compensation program);
- Section 4 (s. 626.748, F.S., relating to agent's records);
- Section 14 (s. 627.9408, F.S., relating to long-term care insurance); and
- Section 15 (s. 641.2342, F.S., relating to contract providers).

The amendment revised the following sections of HB 1607:

- Section 624.3161, F.S., to specify that the proposed rules promulgated by the DOI regarding market conduct exams could not exceed the authority of the Florida Insurance Code (Section 1 of the amendment).
- Section 626.171, F.S., to replace the reference to "character reports" in the licensure application process with the term "background checks" (Section 2 of the amendment).
- Section 627.062, F.S., to eliminate the proposed requirement that insurers' rates would be filed with the DOI in a manner and on forms prescribed by the DOI (Section 4 of the amendment).
- Section 627.0625, F.S., to give the DOI authority to adopt rules to assure commercial motor vehicle claims are administered fairly (Section 5 of the amendment).
- Section 627.385, F.S., to eliminate proposed legislative findings regarding the conduct of residual market board members and add the Workers' Compensation JUA board (Section 7 of the amendment).
- Section 641.3108, F.S., to eliminate the proposed provision that would have prohibited insurers from canceling individual or group contracts for reasons other than nonpayment of premium or termination of eligibility (Section 16 of the amendment).

The amendment makes the following additions to HB 1607:

- Codification of Rule 4-175.009, F.A.C., in s. 627.0651, F.S., to prohibit insurers from imposing surcharges or allowing discounts based on the type of vehicle, unless the insurer provides statistical justification for the surcharge or discount (Section 6 of the amendment).
- Codification of Information Bulletin 94-014, in s. 627.41345, F.S., to prohibit insurers and agents from issuing certificates of insurance that differ from the underlying policy (Section 9 of the amendment).

- Codification of the definition of "claim" in s. 627.7015, F.S., for purposes of the property insurance mediation program in Rule 4-166.031, F.A.C. (Section 10 of the amendment).

The amendment provides for the bill to take effect upon becoming law.

On April 12, 2001, the Committee on Health Promotion adopted one amendment to the Insurance Committee amendment. The amendment directs the Department of Insurance to adopt rules to govern the use of a consumer's nonpublic financial and health information by health insurers and HMOs consistent with the National Association of Insurance Commissioner's Privacy of Consumer and Health Information Regulation adopted September 26, 2000. The amendment also requires that these rules be consistent with, and not more restrictive than, the standards contained in Title V of the Gramm-Leach-Bliley Act of 1999 (public law 106.102).

VII. SIGNATURES:

COMMITTEE ON HEALTH PROMOTION:

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Staff Director:

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AS REVISED BY THE COMMITTEE ON HEALTH PROMOTION:

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