SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: SB 1906

SPONSOR: Senator Latvala

SUBJECT: Insurance (Minimum Down Payment; Premium Financing)

DATE: April 4, 2001 REVISED: 04/09/01

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Deffenbaugh	Deffenbaugh	BI	Fav/1 amendment
2.				
3.				
4.				
5.				
6.				

I. Summary:

SB 1906 adds an exception to the current requirement that at least 2 months' premium be paid as a down payment for a motor vehicle insurance policy. The exception would be for a policy issued pursuant to the transfer of a book of business by an agent from one insurer to another, provided that the policy includes at least $10,000/$20,000 in bodily injury liability coverage in addition to mandatory personal injury protection (PIP) and property damage coverage. The bill also revises a current exemption that applies when all premium payments are paid pursuant to a payroll deduction plan or an automatic electronic funds transfer plan, provided that the first payment is made by cash, check, or money order. As amended, the first premium payment would be allowed, but not required, to be by cash, check, or money order.

The bill also revises the maximum interest rate that an insurer may charge when it finances the premium. Currently, an insurer may charge a rate of interest not to exceed 18 percent simple interest per year *on the unpaid balance.* The bill allows an insurer to charge a rate of interest or service charge, paid in approximately level installments that when billed do not exceed an annualized rate of 18 percent, on the unpaid balance over the term of the policy. This language is intended to allow for a *level* interest rate charge as compared to a *declining* interest rate charge, where the total amount of interest paid under both methods is the same.

Amendment #1 by Banking and Insurance revises the interest rate language to specify that the interest rate or services charge may be level amounts and subject to endorsement changes, that in the aggregate to not exceed 18 percent simple interest per year on the average unpaid balance as billed over the term of the policy. By amending s. 627.901, F.S., the amendment applies to premium financing by an insurance agent, but would also apply to premium financing by an insurer under s. 627.902, F.S., due to the cross-reference in that section to the interest rate specified in s. 627.901, F.S.

This bill substantially amends the following sections of the Florida Statutes: 627.7295 and 627.902.

II. Present Situation:

Minimum "Down Payment" for Auto Insurance
Current law requires that owners of motor vehicles obtain personal injury protection (PIP) coverage and property damage liability coverage of $10,000 each. Section 627.7295(7), F.S., provides that an applicant for a new private passenger motor vehicle insurance policy is required to make a down payment equal to at least 2 months' premium on the policy. This section also prohibits the insurer from canceling the policy for non-payment of premium during the first 60 days coverage, with certain exceptions. These provisions are intended to help enforce mandatory insurance requirements, by preventing persons from binding coverage merely to show proof of insurance at the time of registration of a vehicle.

There are several exceptions to the 2-month minimum down payment requirement, including renewal of a policy, replacement of a policy by an insurer in the same "insurer group," purchase of coverage for an additional vehicle with the insurer or an insurer in the same insurer group, and policies issued to military personnel.

One exception applies when all premium payments are paid pursuant to a payroll deduction plan or an automatic electronic funds transfer plan from the policyholder, provided that the first payment is made by cash, check, or money order.

Another exception applies if all payments to an insurer are paid pursuant to an automatic electronic funds transfer payment plan from an agent and if the policy includes, at a minimum, $10,000/$20,000 in bodily injury liability coverage, as well as mandatory PIP and property damage coverage. It is believed that non-payment cancellations are not as great a problem for full coverage policies.

Premium Financing; Maximum Interest Rate for Periodic Payments

Under the provisions s. 627.901, F.S., (applicable to insurance agents) and s. 627.902 (applicable to insurers), F.S., an agent or insurer may impose a reasonable service charge for financing insurance premiums. The service charge may not exceed $12 per year for any premium balance greater than $220. In lieu of such service charge, an agent or insurer may charge a rate of interest not to exceed 18 percent simple interest per year *on the unpaid balance.* If the service charge or interest rate is greater than this amount, the insurer or agent is subject to part XV of ch. 627, F.S., which provides for the regulation of premium finance transactions by the Department of Insurance.

By specifying that the maximum 18 percent interest rate per year is on the unpaid balance, it may be unclear whether an insurer or agent can charge a *level* interest rate each month, as compared to a *declining* interest rate calculation, even though the total amount of interest paid over a 12-month period is the same. The following chart compares the two methods:

Payment #	Unpaid Balance	Premium Payment	Interest Charge on "Unpaid Balance" @ 18% Annualized	Level Interest Charge @ 18% annualized
1	$0	$100.00	0	$8.25
2	$1,100.00	$100.00	$16.50	$8.25
3	$1,000.00	$100.00	$15.00	$8.25
4	$ 900.00	$100.00	$13.50	$8.25
5	$ 800.00	$100.00	$12.00	$8.25
6	$700.00	$100.00	$10.50	$8.25
7	$600.00	$100.00	$9.00	$8.25
8	$500.00	$100.00	$7.50	$8.25
9	$400.00	$100.00	$6.00	$8.25
10	$300.00	$100.00	$4.50	$8.25
11	$200.00	$100.00	$3.00	$8.25
12	$100.00	$100.00	$1.50	$8.25
Total Payments		$1200.00	$99.00	$99.00

III. Effect of Proposed Changes:

Minimum "Down Payment" for Auto Insurance

Section 1 of the bill amends s. 627.7295, F.S., to add an exception to the 2-month minimum down payment requirement for a new motor vehicle insurance policy. The exception would be for a policy issued pursuant to the transfer of a book of business by an agent from one insurer to another, provided that the policy includes at least $10,000/$20,000 in bodily injury liability coverage, as well as mandatory PIP and property damage coverage. It is believed that risks of non-cancellation are low when an agent transfers a "full coverage" policy from one carrier to another.

The bill also revises the current exemption that applies when all premium payments are paid pursuant to a payroll deduction plan or an automatic electronic funds transfer plan from the policyholder, provided that the first payment is made by cash, check, or money order. As amended, the first premium payment would be allowed, but not required, to be by cash, check, or money order.

Premium Financing

Section 2 of the bill amends s. 627.902, F.S., to allow an insurer to charge a rate of interest or service charge, paid in approximately level installments that when billed do not exceed an annualized rate of 18 percent, on the unpaid balance over the term of the policy. This language is intended to allow for a level interest rate charge, as compared to a declining interest charge, as illustrated in the chart in Present Situation, above.

By amending s. 627.902, F.S., the bill affects only the interest rate that an insurer, a subsidiary of an insurer, or a corporation under the same management or control as an insurer may charge. The bill does not affect the maximum interest rate that an insurance *agent* may charge, because the bill does not amend s. 627.901, F.S.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The bill would allow for level interest charges each month, as compared to declining interest charges, but the total interest rate that may be charged to a policyholder by an insurer over a 1-year period is not changed.

C. Government Sector Impact:

None

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Banking and Insurance:
Revises the interest rate language to specify that the interest rate or service charge that may be imposed by an insurer or agent financing premiums may be level amounts and subject to endorsement changes, that in the aggregate to not exceed 18 percent simple interest per year on

the average unpaid balance as billed over the term of the policy. By amending s. 627.901, F.S., the amendment applies to premium financing by an insurance agent, but the revisions would also apply to premium financing by an insurer under s. 627.902, F.S., due to the cross-reference in that section to the interest rate specified in s. 627.901, F.S. (WITH TITLE AMENDMENT)