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**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: CS/HB 747

RELATING TO: Credit insurance

SPONSOR(S): Committee on Insurance and Representative(s) Brown

TIED BILL(S):

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

(1) INSURANCE YEAS 13 NAYS 1
(2) BANKING
(3) COUNCIL ON COMPETITIVE COMMERCE
(4)
(5)

I. SUMMARY:

The Department of Insurance issues limited licenses for the sale of three different types of credit-based insurance products: credit life or disability, credit property, and credit insurance. Virtually all licenses are issued to entities such as retail merchants, automobile dealerships, or finance companies, rather than to individuals.

Under the committee substitute, the entities eligible to obtain a limited license to sell credit life or disability insurance would be restricted to lending or financial institutions or creditors. Lending or financial institutions or creditors licensed to sell credit life or disability insurance (and by extension credit insurance or credit property insurance) also would be permitted to submit a single license application for all offices selling the insurance product.

Further, for sales occurring over the phone, agents would be required to *disclose* certain product terms to the purchaser within 30 days from the date the policy takes effect rather than securing the *acknowledgment* of these product terms from the purchaser prior to sale. The borrower then would have 30 days from the date the disclosures are received to rescind the coverage.

Based on the assumptions utilized, the bill would have a recurring negative fiscal impact on the Department of Insurance of $5,000 in reduced license application fees.

The bill would take effect on July 1, 2001.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1.	Less Government	Yes []	No []	N/A [x]
2.	Lower Taxes	Yes []	No []	N/A [x]
3.	Individual Freedom	Yes []	No []	N/A [x]
4.	Personal Responsibility	Yes []	No []	N/A [x]
5.	Family Empowerment	Yes []	No []	N/A [x]

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Lines of credit-related insurance

The Department of Insurance issues limited licenses for the sale of three different types of credit-based insurance products: credit life or disability, credit property, and credit insurance.[1] Virtually all licenses are issued to entities such as retail merchants, automobile dealerships, banks or finance companies, rather than to individuals. Each branch office or place of business of the entity must obtain a license to sell the insurance product and post the license in a visible location. Licensees, whether an individual or entity, are appointed by an insurer to market the particular insurance product at their place of business. Applicants for these limited licenses must undergo a background investigation and submit a set of fingerprints. Applicants are not required to take a licensure examination or, once licensed, take continuing education courses. Limited lines agents may not hold a license as an agent for any other kind or class of insurance.

>*Credit life or disability insurance* covers a credit holder's debt in case of death or disability. Both individuals and entities can be licensed to sell this product. An individual seeking a limited license to sell 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.

Except for lending or financial institutions, entities which hold a credit life or disability license also may sell credit property insurance. The entity selling credit life or disability insurance is required to submit only one license application. However, the entity must obtain a license for each office, branch office, or place of business and pay the required appointment fees. However, these entities are not required to pay additional application fees for licenses issued to these offices or branches.

>*Credit property insurance* insures against the loss of personal property used as collateral for securing a loan or on personal property purchased under an installment sales agreement. Any individual, other than an employee of a financial institution, may be licensed to sell this

[1] See section 626.321(1)(e)(f) and (g), F.S.

insurance product. Except for financial institutions, entities holding a license to sell credit life or disability insurance also may be licensed to sell credit property insurance.

>*Credit insurance* covers loss or damage resulting from the failure of debtors to pay their obligations to creditors (including loss or damage resulting from the involuntary unemployment of the debtors). The licensing provisions for entities licensed as credit life or disability apply to entities licensed as credit insurance agents. Apparently, then, both individuals and entities may be licensed to sell this product subject to the same limitations as apply to credit life or disability licensees. It is unclear if this means financial institutions can or cannot be licensed to sell this product. Nonetheless, some financial institutions do enter into "debt cancellation/deferment agreements" with borrowers. Under these agreements, the financial institution will cancel or suspend a debt in the event of the death, unemployment, or disability of the borrower. Unlike credit insurance, these agreements are not regulated as insurance products.

<u>Acknowledgement of disclosures</u>

Agents selling credit life insurance must obtain, prior to sale, a separate written acknowledgment from the borrower that the borrower understands that the coverage is not needed to obtain the loan, that the coverage may be deferred, and that the coverage will be terminated when the borrower reaches a certain age.[2]

<u>Favored agent prohibitions</u>

Agents selling credit and credit property insurance are subject to the general prohibition against a loan officer involved in a loan transaction from selling insurance in connection with that same loan.[3]

<u>License and appointment fees</u>

Regardless of the type of limited license, license application fees can cost approximately $150. License fees for a branch office of an entity applicant can run approximately $50. Total fees for limited appointments, original and biennial renewal, are $60 per appointment. [4] Of this amount, $42 is the appointment fee paid to the Department of Insurance, $12 is state tax, and $6 is county tax.

C. EFFECT OF PROPOSED CHANGES:

Under the committee substitute, the entities eligible to obtain a limited license to sell credit life or disability insurance would be restricted to lending or financial institutions or creditors. Lending or financial institutions licensed to sell credit life or disability insurance also would be permitted to obtain a license to sell credit property insurance and credit insurance. Lending or financial institutions or creditors licensed to sell credit life or disability insurance (and by extension credit insurance or credit property insurance) also would be permitted to submit a single license application for all offices selling the insurance product.

Further, for sales occurring over the phone, agents would be required to *disclose* certain product terms to the purchaser within 30 days from the date the policy takes effect rather than securing the *acknowledgment* of these product terms from the purchaser prior to sale. The borrower then would have 30 days from the date the disclosures are received to rescind the coverage.

[2] Section 627.679(1)(b), F.S.
[3] Section 626.9551(2)(d), F.S.
[4] Section 624.501, F.S.

D. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

Department of Insurance:	FY 2001-02	FY 2002-03
Insurer's Commissioner's Regulatory Trust Fund	($5000)	($5000)

See Section III.D., Fiscal Comments.

2. Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Those entities authorized to sell credit life or disability insurance and credit property insurance would benefit because they also could sell credit insurance to consumers. According to the Department of Insurance, entities with multiple locations would be able to reduce their license application costs by submitting a single license application.

Allowing entities selling credit insurance to make certain disclosures to a purchaser after the sale in lieu of having to obtain their "acknowledgment" prior to sale should facilitate the sale of credit insurance through telephonic means. This change could result in certain terms not being disclosed until after the sale has occurred. Consumers would have 30 days from the date the disclosures are received to rescind their coverage.

Additionally, companies offering credit insurance would not have to obtain fingerprints from their officers during the licensure process.

D. FISCAL COMMENTS:

The Department of Insurance would experience reduced license application fee revenues.

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 take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The 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:

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

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On March 26, 2001, the Committee on Insurance approved the bill as a committee substitute. The committee substitute differs from the original bill in that the committee substitute deletes from the bill the proposed 1) elimination of the requirement that an entity applying for a credit license obtain a separate license or appointment for each office; and 2) exemption of credit and credit property insurance from the prohibition against the sale of insurance by loan officers in connection with the same loan.

Additionally, *except for sales occurring over the telephone*, the committee substitute restores current law requiring a written *acknowledgment* of certain product terms in s. 627.679, F.S., (rather than a post-sale *disclosure*) prior to the sale of credit life insurance. For credit life insurance sold over the telephone, the agent would be permitted to make a post-sale disclosure of certain product terms in s. 627.679, F.S., in lieu of obtaining a pre-sale written acknowledgment of these terms as is currently required. The amendment would extend this same post-sale disclosure to the disclosure required under 626.9551(2)(a). That disclosure requires the insured be informed that the choice of insurance provider will not affect the decision regarding the extension of credit.

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

Prepared by:	Staff Director:
Stephen T. Hogge	Stephen T. Hogge