

# 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: CS/SB 1994

SPONSOR: Banking and Insurance Committee and Senator Latvala

SUBJECT: Communication Equipment Property Insurance

DATE: February 25, 2002      REVISED: \_\_\_\_\_

|    | ANALYST       | STAFF DIRECTOR     | REFERENCE | ACTION              |
|----|---------------|--------------------|-----------|---------------------|
| 1. | <u>Emrich</u> | <u>Deffenbaugh</u> | <u>BI</u> | <u>Favorable/CS</u> |
| 2. | _____         | _____              | _____     | _____               |
| 3. | _____         | _____              | _____     | _____               |
| 4. | _____         | _____              | _____     | _____               |
| 5. | _____         | _____              | _____     | _____               |
| 6. | _____         | _____              | _____     | _____               |

## I. Summary:

Under current law, there are specified limited categories of business insurance which are sold by limited lines agents who are licensed by the Department of Insurance. These limited classes of business insurance include the following: motor vehicle physical damage and mechanical breakdown, industrial fire or burglary, personal accident, baggage and motor vehicle excess liability, credit, credit life or disability, credit property, crop hail and multiple peril crop, and in-transit and storage personal property insurance. Limited lines agent applicants must be separately licensed for each of these categories of insurance.

Committee Substitute for Senate Bill 1994 would expand the current limited lines license category of “in-transit and storage person property insurance” to include “communications equipment property insurance or communications equipment inland marine insurance.” This expanded category of insurance would cover the loss, theft, mechanical failure, malfunction, or damage to equipment such as handsets, pagers, personal digital assistants, portable computers, automatic answering devices, and other devices or accessories used to originate or receive communications signals or service. However, it would not include telecommunication switching equipment, transmission wires, cell site transceiver equipment, or other equipment and systems used by telecommunications companies to provide telecommunications service to consumers.

This expanded license would be issued to employees or authorized representatives of a licensed general lines agent, to business locations of a communications equipment retail vendor, and to employees, agents, or authorized representatives of such vendor. As with several other limited lines of insurance, agents selling this product would be exempt from the pre-licensing examination and education requirements applicable to general lines agents. However, unlike other limited lines licensees, licensees marketing this product would be required to receive initial training from, and have a “contractual relationship” with, a general lines agent.

This bill substantially amends the following sections of the Florida Statutes: 626.221, 626.321, and 626.732.

## **II. Present Situation:**

### **Insurance Coverage for Communication Equipment**

Coverage for the loss, theft, mechanical failure, damage or malfunctioning of communication equipment (e.g. cellular phones, laptop computers, personal digital assistants) is a form of property insurance. As a form of property insurance, it can only be sold through general lines agents, unless authorized as a limited line of insurance. The Legislature has not authorized a limited line of insurance specifically tailored to communications equipment.

Depending on the particular circumstances, personal communications equipment may be covered against theft or damage under a homeowners' insurance and automobile insurance policy. However, homeowners' insurance and automobile insurance typically require a deductible payment by the consumer. The consumer also may be currently covered for mechanical defects or malfunctioning through a product warranty from the manufacturer or an extended warranty purchased from the retailer or manufacturer of communications equipment. Persons who sell service warranties are licensed and regulated by the Department of Insurance pursuant to part III of chapter 634, F.S. In general, warranties are generally considered not to be insurance products because a warranty promises to indemnify against defects in the article sold, while insurance indemnifies against loss or damage resulting from perils outside of and unrelated to defects in the article itself.

### **Classification of Agents: General Lines and Limited Lines**

Insurance agents may be classified according to the number of products they may sell, the type of products they sell, and their place of residency. A "general lines agent," is authorized under state law to transact any or all of the following lines of insurance: property, casualty, surety, health and marine insurance. "Limited lines agents" are individuals or entities licensed as agents but limited to selling one or more of the following forms of insurance (each requiring a separate license): motor vehicle physical damage and mechanical breakdown, industrial fire or burglary, personal accident, baggage and motor vehicle excess liability, credit, credit life or disability, credit property, crop hail and multiple peril crop insurance, or in-transit and storage personal property.<sup>1</sup> General lines agents also may transact limited lines of insurance other than credit life insurance.

### **Licensing of Agents**

Insurance representatives are required by Florida law to be licensed by the Department of Insurance prior to transacting business in the state.<sup>2</sup> The Department issues approximately 83 different types of insurance licenses and 19 temporary licenses. An applicant for a general lines

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<sup>1</sup> S. 626.321, F.S.

<sup>2</sup> S. 626.112, F.S. Transacting insurance is defined in s. 624.10, F.S., as including solicitation or inducement, preliminary negotiations, effectuation of a contract of insurance, and transaction of matters subsequent to effectuation of a contract of insurance and arising out of it.

license, among other conditions for licensure and with certain exceptions, must satisfy pre-licensing education, experience, or instruction requirements and pass an examination.<sup>3</sup> Applicants for a limited lines license generally do not have to satisfy any pre-licensing education or examination requirements to be licensed.<sup>4</sup> Such applicants must, however, file an application with the department, be fingerprinted and after obtaining a license, be appointed by an insurance company.

### III. Effect of Proposed Changes:

Under the provisions of this bill, an “in-transit and storage personal property insurance, or communications equipment property or communications equipment inland marine insurance” limited lines license would allow specified sellers to offer such insurance coverage against theft, loss, damage, or mechanical failure. This expanded license would be similar to coverage currently sold in Florida such as automobile liability insurance coverage sold at rental counters and credit insurance coverage marketed in car dealerships. Licensees would be subject to provisions of the agents’ code and would receive training and have a contractual relationship with a general lines agent.

A section-by-section analysis of the bill is provided below:

**Section 1.** Amends s. 626.221, F.S., relating to examination requirements, to exempt applicants for limited licenses for in-transit and storage personal property insurance, or communication equipment property or communication equipment inland marine insurance<sup>5</sup> from having to satisfactorily pass a written examination in order to hold a license. Under current law, limited lines agents are exempt from pre-licensing examination requirements.

**Section 2.** Amends s. 626.321, F.S., relating to limited licenses, to expand the current limited lines license category of “in-transit and storage personal property insurance”<sup>6</sup> to include a new product entitled “communication equipment property or communication equipment inland marine insurance.” This type of insurance would cover the loss, theft, mechanical failure, malfunction, or damage to communications equipment. The license could be issued only to employees or authorized representatives of a licensed general lines agent, to each business location of a communication equipment retail vendor, or to employees, agents, or authorized representatives of such vendor. The license may authorize the sale of such insurance policies only in connection with the sale of, or provision of, monthly communications service for communication equipment. Unlike other limited licensees, licensees marketing this product would be required to receive initial training from, and have a contractual relationship with a general lines agent. The bill specifically exempts general lines agents from being required to

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<sup>3</sup> SS. 626.732, 626.731, and 626.221, F.S.

<sup>4</sup> S. 626.221, F.S. For three types of limited licenses, the applicant must take a written examination (motor vehicle physical damage and mechanical breakdown, industrial fire or burglary insurance, and crop hail and multiple-peril crop insurance), but for the other six, the applicant is expressly exempt from an examination (personal accident insurance, baggage and motor vehicle excess liability insurance, credit life or disability insurance, credit insurance, credit property insurance, and in-transit and storage personal property insurance).

<sup>5</sup> Inland marine insurance is insurance covering loss or damage to vessels, aircraft, cars, as well as goods, freight and all other kinds of property in connection with all risks of navigation, transit, or transportation.

<sup>6</sup> In-transit and storage personal property insurance covers only the insurance of personal property not held for resale, covering the risks of transportation or storage in rented or leased motor vehicle, trailers, or self-service storage facilities.

obtain a separate license to offer or sell communications equipment property insurance or communication equipment inland marine insurance.

The term “communications equipment” is defined to include handsets, pagers, personal digital assistants, portable computers, automatic answering devices, and other devices or accessories used to originate or receive communications signals or service, and includes services related to the use of such devices, such as consumer access to a wireless network. However, the bill restricts the definition of “communications equipment” to exclude telecommunication switching equipment, transmission wires, cell site transceiver equipment, or other equipment and systems used by telecommunications companies to provide telecommunications service to consumers.

The bill provides that individuals applying for or holding a limited license for communication equipment or communication equipment inland marine insurance must be subject to the same applicable requirements and responsibilities as apply to general lines agents in general.

**Section 3.** Amends s. 626.732, F.S, relating to knowledge, experience, or instruction requirements, to exempt applicants for limited licenses for communication equipment property or communication equipment inland marine insurance from having to complete specified educational courses or having to complete at least 1 year in responsible insurance duties.

**Section 4.** Provides the act will take effect upon becoming a law.

#### **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:

There is a possibility a consumer could purchase duplicate coverage if they buy the communication equipment insurance under the bill and a manufacturer’s warranty, or purchase an extended service warranty, or have other forms of insurance that cover certain perils covered under this expanded category of insurance. Insurers offering this

product would receive premium revenues from its sale and retail establishments licensed as agents to sell this product would receive commissions from any sales.

Persons and businesses that wish to transact the type of insurance contemplated by the bill would have to pay license and application fees to the Department of Insurance, if such persons did not already possess an in-transit and storage personal property license. Specifically, an applicant for such a license would have to pay a \$50 filing fee, a \$5 license fee, and the insurer would pay an appointment fee of \$60.

**C. Government Sector Impact:**

According to officials with the Department of Insurance, the agency will receive some revenue from licensing limited lines agents and retail establishments who will market the communication equipment products. However, the amount of such revenue will be minimal.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.