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DATE: February 27, 2002

HOUSE OF REPRESENTATIVES

COUNCIL FOR COMPETITIVE COMMERCE ANALYSIS

BILL #: CS/CS/HB 1247

RELATING TO: Premium Financing

SPONSOR(S): Council for Competitive Commerce, Committee on Insurance and Rep. Ross

TIED BILL(S):

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

(1) INSURANCE YEAS 13 NAYS 1
(2) COUNCIL FOR COMPETITIVE COMMERCE YEAS 12 NAYS 0
(3)
(4)
(5)

I. SUMMARY:

Premiums may be paid in installments through a premium finance company or an installment plan set up by an insurance company, agent, or agency. A premium finance company makes premium payments to an insurance company and collects installment payments from the insureds.

Under current law an insurance company or insurance agent or agency not licensed as a premium finance company may collect service charges of up to a maximum of $12 annually depending on the amount of the premium balance or, in lieu of these charges, charge an annual rate of interest not to exceed 18 percent on the unpaid balance. In contrast, entities licensed as a premium finance company may charge a broader range of fees, including service charges of up to $12 per $100 per year, plus an additional $20 set-up charge; a delinquency and collection charge of up to $10, cancellation charges or attorney's fees under certain circumstances, and insufficient funds fees of $15.

CS/CS/HB 1247 provides an alternative method of calculating and billing interest charged by an insurance agent, agency, or company. Interest could be charged on the unpaid balance, as provided in current law, or could be charged on the average unpaid balance as billed over the term of the policy and subject to endorsement changes. These interest payments could be made in equal monthly installments.

The bill also allows an insurance company to charge, in addition to the fees or interest currently allowed, certain other charges, all or a portion of that premium finance companies are currently allowed to charge.

The bill has no fiscal impact on state or local government.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

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

B. PRESENT SITUATION:

Insurance premiums may be paid in installments through a premium finance company,[1] or an installment plan set up by an insurance company, agent, or agency. The charges allowed under premium financing arrangements are illustrated in the following table.

	Premium Finance Company[2]	**Agent or Agency[3]**	**Insurance Company[4]**
Licensure as premium finance company	Required.	Not required, unless total service charge or interest exceeds allowed charge or rate, see below.	Not required, unless charging "substantially" more than fees or interest allowed to agents and agencies.
Interest charges	No provision; service charge and other fees, only.	18 percent simple interest per year on unpaid balance, in lieu of allowed service charge.	Not "substantially" more than that allowed agents or agencies.
Service charges	$12 per $100 of premium financed, per year.	Not more than $1 per installment, or: $6 per year on premiums of $120 or less; $9 per year on premiums between $120 and $220; $12 per year on premiums over $220.	Not "substantially" more than that allowed agents or agencies.
Other fees	"Set up" charge – $20, once annually. Delinquency or collection charge – $10 or 5 percent, whichever is greater.[5] Attorney's fees – not to exceed 20 percent. Insufficient funds – $15.	Not authorized.	Not authorized.

[1] Premium finance companies are licensed by the Department of Insurance and must meet minimum net worth requirements and maintain an errors and omissions insurance policy of no less than $500,000. S. 627.828, F.S.
[2] Part XV, Ch. 627, F.S.
[3] Part XVI, Ch. 627, F.S.
[4] Id.
[5] The maximum delinquency charge is $10 in the case of premium financing on primarily personal, family, or household goods. S. 627.841, F.S.

At the request of committee staff, the Department of Insurance prepared the following information to illustrate the maximum charge allowed of an insurance company, agent, or agency as well as the maximum allowed of a premium finance company.

Hypothetical - $1,000 premium on a six-month policy
Two months down payment ($333) and equal installments at months 3,4, 5, and 6.

	Principal Payment	Number of Payments Outstanding	Outstanding Balance	Months since prior payment	Monthly interest rate	Maximum Charge
	$166.75	4	$667.00	2	1.50%	$20.01
	$166.75	3	$500.25	1	1.50%	$7.50
	$166.75	2	$333.50	1	1.50%	$5.00
	$166.75	1	$166.75	1	1.50%	$2.50
Total	$667.00		$2,334.50			$35.02

Under this hypothetical the Department would permit the insurance company, agent, or agency to charge $35.02 in equal amounts over the four outstanding payments, or **$8.75 per installment**.

Under this same hypothetical, the Department would allow a premium finance company to charge $53.35, or **$13.34 per installment**. This is the result of a difference in the computation of the finance charge, in place of the interest rate, and the application of a $20 "set up" fee allowed by statute.

C. EFFECT OF PROPOSED CHANGES:

The bill provides an alternative to the current method of calculating and billing interest charges when premiums are financed by an insurance agent, agency, or company. Interest could be charged, as provided in current law, on the unpaid balance, or interest could be charged on the average unpaid balance. If the average unpaid balance is used, interest could be billed in equal monthly installments.

The bill also allows insurance companies to impose certain other charges, or a portion of the charges, that premium finance companies are currently allowed to charge. These are an additional $10 set-up charge (one half of the charge allowed of premium finance companies); a delinquency and collection charge of up to $10 or 5 percent of the delinquent amount, whichever is greater;[6] attorney's fees under certain circumstances; and insufficient funds fees of $15.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

[6] The maximum delinquency charge is $10 in the case of premium financing on primarily personal, family, or household goods. S. 627.841, F.S.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

N/A

2. Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

N/A

2. Expenditures:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Permitting insurance companies to charge additional fees when using an installment arrangement for premium payments would increase costs to policyholders. However, many of these costs would not apply unless the policyholder was late or delinquent in making payments. To the extent policyholders paid higher fees, insurance companies would experience increased revenues.

D. FISCAL COMMENTS:

N/A

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 action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that counties or municipalities 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 state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The Council Substitute for CS/HB 1247 differs from HB 1247 as filed in that the original bill did not address the method of calculating or billing interest charged by an insurance agent, agency, or company. (A similar version of this provision, however, was contained in HB 679 as filed.) The Council Substitute also incorporates an Insurance Committee amendment that reduced by one-half the set-up fee authorized by the bill, and removes a provision that would have expanded the circumstances in which an insurer could be subject to licensure as a premium finance company.

VII. SIGNATURES:

COUNCIL FOR COMPETITIVE COMMERCE:

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

AS REVISED BY THE COUNCIL FOR COMPETITIVE COMMERCE:

Prepared by:	Council Director:
Leonard Schulte	Matthew M. Carter II