Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. S.B. 154** DATE: **March 11, 1998**

STATUS: **As Reported by House Insurance** SPONSOR: **Sen. Nein**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Revises Insurance Agents Laws**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential gain of up to $130,000	Potential gain of up to $130,000
Expenditures	- 0 -	- 0 -	- 0 -
State Special Revenue Fund – Insurance Operating Fund (Fund 554)			
Revenues		Potential gain of up to $290,000	Potential gain of up to $290,000
Expenditures		Up to $104,000 increase	Up to $107,000 increase
General Services Fund – General Reimbursement (Fund 106)			
Revenues	- 0 -	Potential gain of up to $233,000	Potential gain of up to $237,000
Expenditures	- 0 -	Up to $233,000 increase	Up to $237,000 increase

- The elimination of the residency requirement would create an estimated additional 2,140 licensed agents (out-of-state) annually. It is however, unclear if this will result in additional policies being written in Ohio that could result in additional tax revenues.

- The bill, by expanding the potential number agents licensed and thus the number of appointments, additional fee revenue, would generate an estimated $130,000 annually to the GRF, and a $290,000 annual gain to the insurance operating fund (Fund 554).

- By requiring background checks of agents seeking licensure, additional revenues and expenditures of $233,000 will be generated to Fund 106, General Reimbursement, in the Attorney General's office.

Local Fiscal Highlights

- No direct fiscal effect on local governments.

Detailed Fiscal Analysis

The bill makes revisions in the Insurance Agents laws, including agent licensure and appointment of agents by insurers, modifies the scope of practice of insurance agents and generally updates the laws pertaining to the practice of insurance by agents.

While many of the general provisions of the bill generally have no apparent direct fiscal effect on the state or local governments, the following provisions in the bill make changes that have an impact on state finances. They are (1) elimination of the residency requirement for insurance agents, (2) a change in the allocation of fee revenue between Fund 554, Department of Insurance Operating and the GRF; (3) requirement that agents undergo criminal background checks; and (4) reduction of continuing education requirements from 30 hours to 20 hours every two years.

Background Information

The Department of Insurance annually licenses approximately 10,000 agents, and regulates approximately 75,000 agents annually with 600,000 appointment licenses. The department also regulated 631 "foreign" and 199 "domestic" insurance companies that paid taxes in FY 1996. Ninety percent of the department's revenue is received in the first quarter of each fiscal year. All estimates assume an effective date of July 1, 1998.

1. Elimination of Residency Requirements

Under current law, no agent's license can be issued to a person who is a resident of a state that prohibits Ohio residents from acting as agents of insurance companies in that state. The bill would allow for the issuance of a license to any individual who is a resident of another state or a province of Canada, or to any corporation, partnership or limited liability company that is organized under the laws of another state or province of Canada. To estimate the number of new agents that would be licensed to conduct insurance related activities in the state of Ohio, we applied the inverse ratio of the number of foreign to domestic insurers (21.4 percent), since the location of an insurer to the insured is not as significant as the location of an agent (insurance agent activities require extensive personal contact). Furthermore, we anticipate that this provision will have a greater impact in the areas that border other states than in areas like central Ohio, although not all border areas will see similar levels of activity. We thus further anticipate an even greater impact in southeast, southwest and northwest Ohio than in northeast Ohio. We thus estimate that this provision could result in an additional 2,140 non-resident agents (10,000 X 21.4 percent) being licensed annually. Applying the number of "appointment" licenses per agent, 19,260 (2,140 X 8 "appointment" licenses per agent) fee generating licenses could be created for an additional revenue of $385,200 (19,260 X $20 license fee). Fund 554 will gain $288,900 annually while the GRF would gain of $127,116. In addition, we estimate that these new licenses would result in additional administrative costs of $103,811 [19,260 X $5.39 (administrative (licensing, enforcement, fraud, and market conduct) costs per license] annually to the Department of Insurance. The administrative cost per license was estimated by dividing FY 1997 investigative and licensing program costs by the number of licenses, and project to FY 1999 with a 3 percent annual inflation rate. In addition, it is currently unclear if this will result in additional policies being written in Ohio that could result in additional tax revenues.

2. Allocation of Fee Revenue

The bill codifies Controlling Board action of December 18, 1989, which increased agent "appointment" fees from $15 to $20 and changed the fee revenue distribution. This codification thus has no effect on state finances.

3. BCII Background Checks

The bill requires all applicants for Ohio insurance agents' licenses to submit to a criminal background check done by the Bureau of Criminal Identification and Investigation (BCII). BCII charges a $15 fee for all in-state background checks and $39 for out-of state checks (out-of-state checks are required in addition to the regular check for all non-residents). Given the estimate of 10,000 resident and 2,140 non-resident licenses per year, this provision would generate an estimated $233,460 [(10,000 X $15) + (2,140 X $39)] per year to Fund 106, General Reimbursement, in the Attorney General's office. This will also create equal costs to BCII for conducting the background checks.

4. Continuing Education

The bill reduces the continuing education (CE) requirements of 30 hours every 2 years under current law, to 20 hours every two years. A spokesperson for the department states that this provision would not have a negative impact on the departments' finances, and that it's contracted manager of the CE program, Assessment Systems, Inc. (ASI) will be affected to the extent that the number of courses under their management will be reduced. The contract currently stands at $1.32 million for FY 1998 and $0.88 million in FY 1999. When LBO inquired into the possibility of continued responsibility for the contracted amounts, the spokesperson responded that the contract does not guarantee payments of these amounts, and that the contractor is paid, based on the number of courses reviewed and the attendant fees generated.

In addition, the bill creates a temporary committee to conduct a special study of the continuing education requirements for insurance agents as set forth in the Revised Code and the Administrative Code. According to a spokesperson for the Department of Insurance, this committee will result in a very negligible increase in costs.

5. Penalty for Practicing without a License

The bill prohibits any individual, corporation, partnership, limited liability company, or association from acting as an insurance agent, without first being licensed, and makes a violation of that prohibition a misdemeanor of the first degree. LBO has been unable to obtain any information on the current number of cases that may be prosecuted under this provision. We however anticipate that this provision will only generate a small number of cases, given the fact that the department in FY 1994 referred only 23 cases of licensed agents' violations to county prosecutors.

❑ *LBO staff: Ogbe O. Aideyman, Economist/Budget Analyst.*

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