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## ***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) conversion of mandatory continuing education requirements to optional.

### **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. Optional Continuing Education**

The bill eliminates the continuing education (CE) requirements of current law, and instead provides that any licensed agent who completes continuing education courses may request CE certification from the department. 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 of the number of agents who opt for the CE program. 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 contact 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.

## **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.

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