

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4928-01  
Bill No.: SB 991  
Subject: Consumer Protection; Insurance - General  
Type: Original  
Date: February 13, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
Insurance Dedicated	(\$71,106)	(\$130,077)	(\$134,145)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$71,106)</b>	<b>(\$130,077)</b>	<b>(\$134,145)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Insurance (INS)** state in order to enforce provisions of this proposal, the INS would require one Financial Analyst Specialist II to process registrations, review company financial statements, examine reserve accounts, review any 10K filed and verify company net worth of those issuing product service contracts. The INS estimates that an additional Investigator II would be required to handle provisions of Section 379.1088 which allows for conducting investigations and examinations for the protection of policyholders. The INS will also be required to receive and review the reimbursement contracts used by the providers of the motor vehicle and product service contracts. With the addition of product service contract providers using reimbursement contracts under this proposal, the workload of INS product analysts will increase. It is anticipated that the INS will receive an influx of filings so that providers can be in compliance. The INS is requesting one Insurance Product Analyst I/II to review reimbursement contracts received.

The INS cannot estimate how many companies will register but estimates it will be around 100. If numbers are considerably more (or less) additional (or fewer) staff will need to be requested. Revenue will be generated as a registration fee for product service contracts is required to be paid annually, up to a \$300 annual fee.

ASSUMPTION (continued)

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal to the SOS for administrative rules is less than \$1,500. The SOS does not expect additional funding would be required to meet these costs. However, the SOS recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

**This proposal will result in an increase in total state revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
<b>INSURANCE DEDICATED FUND</b>			
<u>Income - Department of Insurance</u>			
Registration fees	\$15,000	\$30,000	\$30,000
<u>Costs - Department of Insurance</u>			
Personal service costs (3 FTE)	(\$49,661)	(\$101,806)	(\$104,351)
Fringe benefits	(\$21,881)	(\$44,856)	(\$45,977)
Expense and equipment	<u>(\$14,564)</u>	<u>(\$13,415)</u>	<u>(\$13,817)</u>
Total <u>Costs</u> - Department of Insurance	<u>(\$86,106)</u>	<u>(\$160,077)</u>	<u>(\$164,145)</u>
<b>ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND</b>	<b><u>(\$71,106)</u></b>	<b><u>(\$130,077)</u></b>	<b><u>(\$134,145)</u></b>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2007 (6 Mo.)	FY 2008	FY 2009
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

This proposal would impact small business automobile dealerships and other businesses that sell and service extended service contracts.

## DESCRIPTION

This proposal modifies the current law pertaining to service contracts.

The first part of the proposal deals with motor vehicle extended service contracts and changes language that has been moved from Chapter 407 to Chapter 379, RSMo. The proposal prohibits anyone who is not a licensed motor or boat dealer from selling a motor vehicle extended service contract to a consumer. To that end, no such dealer may act as a fronting company for a third party who offers service contracts. The proposal lays out penalties for anyone violating the provisions of the proposal.

The second half of the proposal prohibits any person from issuing or selling a product service agreement without first registering with the department of insurance and paying a fee for such registration. The proposal details the compliance responsibilities for any provider who has registered with the department. In order to ensure that a provider will fulfill a product service agreement, the provider must either establish a funded reserve or obtain a reimbursement insurance policy that satisfies the provider's obligation if it is unable to do so. Any provider fees shall not be subject to premium taxes and any person selling such agreements are exempt from other state licensing laws provided they meet all the requirements of the proposal.

Communication requirements for all service agreements sold in the state are described in the proposal, conveying information on the terms of the agreement, any restrictions attached to the agreement, and the obligations of the agreement holder. The proposal prohibits any misleading advertising pertaining to the sale of product service agreements.

The proposal directs any provider of a product service agreement to keep and maintain accurate records on all such transactions and to retain all such records for at least three years after the agreement coverage has expired. The records of any registered provider of product service agreements shall be made available to the department of insurance upon request from the director.

The proposal prohibits any insurer who has issued a reimbursement insurance policy from terminating a policy until notice of such termination has been communicated to the director. The proposal maintains the right of an insurer who issued such a policy to seek indemnification against a provider who was obligated to pay and did not.

The proposal lays out penalties for anyone violating the provisions of the proposal.

The proposal lays out circumstances whereby the provisions of the proposal shall not apply, including but not limited to warranties, maintenance agreements, and service agreements sold to nonresidents.

DESCRIPTION (continued)

The provisions of the proposal become effective January 1, 2007.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance  
Office of Secretary of State



Mickey Wilson, CPA  
Director  
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