

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1676-02
Bill No.: SB 518
Subject: Insurance - Property; Insurance Dept.
Type: Original
Date: March 26, 2007

Bill Summary: Establishes the Missouri Catastrophe Fund to help protect property and casualty insurers against insolvencies caused by certain natural disasters.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Missouri Catastrophe	\$541,632	(Unknown less than \$240,925)	(Unknown less than \$249,022)
Total Estimated Net Effect on <u>Other</u> State Funds	\$541,632	(Unknown less than \$240,925)	(Unknown less than \$249,022)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Missouri Catastrophe	4	4	4
Total Estimated Net Effect on FTE	4	4	4

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Accounting, COA - Administrative Hearing Commission, COA - Division of General Services/Risk Management, Department of Public Safety (DPS) - Director's Office, DPS - State Emergency Management Agency, Office of the Governor, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also 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 SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of State Treasurer (STO)** state that although this proposal has no fiscal impact on the STO, the State Constitution, Article IV, Section 15 and Section 30.260, RSMo, establishes that the state treasurer shall be custodian of all funds deposited into the state treasury and has investment authority for those funds. The provisions of this proposal state that the director of the Department of Insurance, Financial and Professional Regulation will invest the moneys in the Missouri Catastrophe Fund, which conflicts with the previously cited regulations.

Officials from the **Department of Insurance, Financial and Professional Regulation (DIFP)** state the department has many duties under this proposal. The DIFP will require one (1) Insurance Regulatory Manager, Band 1 FTE (\$40,000 annually), two (2) Insurance Product Analyst II FTEs (\$30,408 annually, each), one (1) Actuary FTE (\$100,000 annually), \$200,000 in one-time contract programming and \$20,000 in ongoing contract program costs to implement this program. The insurance regulatory manager would be responsible for supervision of personnel, developing rules, policies and procedures. The insurance product analysts would review policies, administer the reimbursement contract, assist with rule promulgation and publication of fund information in the Missouri Register and review other documentation received by the fund. The actuary would be required to ensure the premiums paid into the fund are actuarially indicated, monitor the retention multiples and assist in selecting the independent consultant to determine the premiums collected by the fund. The insurance regulatory manager, insurance product analysts and the actuary would also support the Missouri Catastrophe Fund Advisory Council in its duties. The contract programming is needed to setup the appropriate

database for tracking, monitoring and disbursing fund moneys as well as capturing company information.

ASSUMPTION (continued)

The DIFP assumes if revenue bonds are required to be issued that the department would use an outside firm. The cost of issuing the revenue bonds, including the use of an outside firm, would be requested in future budget or supplemental budget requests.

The DIFP assumes that 1,021 property and casualty insurance companies may pay the initial \$1,000 premium to startup the administration of the fund for total revenue of \$1,021,000 (1,021 X \$1,000). The department has made no estimate on the amount of ongoing premiums received into the fund. On-going premium revenues will depend upon several factors that cannot be determined until the fund is created, i.e. insurance companies selection of the retention multiple.

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

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
MISSOURI CATASTROPHE FUND			
<u>Income - DIFP</u>			
Premium revenue	\$1,021,000	Unknown greater than \$100,000	Unknown greater than \$100,000
<u>Costs - DIFP</u>			
Personal service costs (4.0 FTE)	(\$171,530)	(\$210,982)	(\$216,257)
Fringe benefits	(\$77,634)	(\$95,490)	(\$97,878)
Equipment, expense and contract costs	<u>(\$230,204)</u>	<u>(\$34,453)</u>	<u>(\$34,887)</u>
Total <u>Costs - DIFP</u>	<u>(\$479,368)</u>	<u>(\$340,925)</u>	<u>(\$349,022)</u>
FTE Change - DIFP	4.0 FTE	4.0 FTE	4.0 FTE
ESTIMATED NET EFFECT ON MISSOURI CATASTROPHE FUND			
	<u>\$541,632</u>	<u>(Unknown less than \$240,925)</u>	<u>(Unknown less than \$249,022)</u>
Estimated Net FTE Change for Missouri Catastrophe Fund	4.0 FTE	4.0 FTE	4.0 FTE

FISCAL IMPACT - Local Government

FY 2008
(10 Mo.)

FY 2009

FY 2010

\$0

\$0

\$0

FISCAL IMPACT - Small Business

The proposal may impact small businesses if coverage for certain natural disasters, like earthquakes, becomes more readily available and more affordable in areas prone to these types of natural disasters.

FISCAL DESCRIPTION

This proposal establishes the Missouri Catastrophe Fund to help pay covered residential property damage insurance claims in the aftermath of a true catastrophe which affects Missouri homeowners and their property/casualty insurers. The fund, which will consist of premiums paid by insurers, bond revenues, and appropriated state funds, will provide a backstop for companies to insure against covered catastrophic losses to avoid the collapse of the property insurance market in the wake of a major natural disaster or other catastrophe in the state, as specified by the proposal (earthquakes and ice storms).

Premiums will be set by the Director of the Department of Insurance, Financial and Professional Regulation, who shall select an independent consultant to develop a formula for determining the actuarially indicated premium. The director will calculate premiums based upon the insured values under the insurer's covered policies, as reported annually to the director.

In exchange for the reimbursement premium paid to the fund by insurers, the director will enter into a contract with each insurer, promising to reimburse the insurer for a percentage of its losses in excess of the insurer's retention, plus 10% of that amount to cover loss adjustment expenses. The insurer will select the reimbursement percentage, at 45%, 75% or 90%, which may be adjusted under certain circumstances. Reimbursement amounts from the fund shall not be reduced by reinsurance paid or payable to the insurer, but the insurer's total recovery shall not exceed 100% of the insurer's losses from covered events, and any excess shall be returned to the fund, unless there is an agreement to the contrary.

The proposal further authorizes the director to issue bonds if moneys in the fund are insufficient to pay reimbursement at the levels agreed to in the reimbursement contracts, upon the occurrence of a covered event. The proposal provides that if the director determines that the amount of the actuarially indicated premiums are insufficient to fund revenue bonds to pay the reimbursement contracts, the director shall levy emergency assessments on each property and casualty insurer in

the state.

FISCAL DESCRIPTION (continued)

The proposal also requires, in fiscal years in which there are no outstanding obligations of the fund, an annual appropriation of 10% to 35% of the fund's investment income for the purpose of providing funding for local governments, state agencies, public and private educational institutions, and nonprofit organizations to support programs intended to improve catastrophe preparedness, prevent and reduce potential losses from a covered loss, provide research into means to prevent and reduce such losses, educate or inform the public as to means to reduce losses from covered events, assist the public in determining the appropriateness of particular upgrades to structures or in the financing of those upgrades, or protect local infrastructure from potential damage from a covered loss.

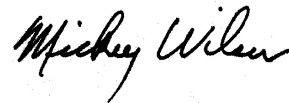
The "Missouri Catastrophe Fund Advisory Council" is established in the Department of Insurance, Financial and Professional Regulation to provide the director with information and advice in connection with the fund.

In anticipation of the creation of a federal or multi-state catastrophic insurance fund or reinsurance program, the proposal requires the director, following the creation of such fund or program, to make recommendations to the General Assembly as to how the fund can coordinate with the federal or multi-state program and for such other actions as the Treasurer determines are appropriate under the circumstances.

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

Office of Administration -
 Division of Accounting
 Administrative Hearing Commission
 Division of General Services/Risk Management
Department of Insurance, Financial and Professional Regulation
Department of Public Safety -
 Director's Office
 State Emergency Management Agency
Office of the Governor
Missouri Senate
Office of Secretary of State
Office of State Treasurer



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Director
March 26, 2007