

February 5, 2018

The Honorable Jene Vickrey, Chairperson
House Committee on Insurance
Statehouse, Room 276-W
Topeka, Kansas 66612

Dear Representative Vickrey:

SUBJECT: Fiscal Note for HB 2499 by House Committee on Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2499 is respectfully submitted to your committee.

Under current law, an insurance company has the option to either contract with an individual agent or with an agency that automatically appoints all affiliated agents in the agency to be under contract with the insurance company. HB 2499 would amend the Uniform Insurance Agents Licensing Act by eliminating the ability to contract with an agency and the requirement that when an insurance company contracts with agency that all agents in the agency are automatically appointed with the insurance company.

The Insurance Department estimates that HB 2499 would decrease state revenues by approximately \$14.5 million in FY 2019. Of that total, State General Fund revenue is estimated to decrease by \$6.5 million in FY 2019, while Insurance Department Service Regulation Fund revenue is estimated to decrease by \$8.0 million in FY 2019. The Insurance Department indicates that similar reductions in revenues would also occur in future fiscal years.

To formulate this estimate, the Insurance Department reviewed data on initial and renewal appointment fee collections, agency appointments, and retaliatory tax collections. In FY 2017, the Insurance Department collected \$11,186,426 from appointment fees that are deposited in the Insurance Department Service Regulation Fund, including \$1,233,221 from initial appointment fees and \$9,953,205 from renewal appointment fees. The Insurance Department indicates that under current law and with expected growth in the insurance industry, it is estimating that it would collect approximately \$12.3 million from initial and renewal appointment fees in FY 2019. The Insurance Department estimates that by eliminating the choice to contract with an agency and eliminating agency affiliated appointments, the number of initial and renewal agency affiliated appointment fee collections would be reduced by approximately 60.0 percent in FY 2019, or \$7.4

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million. In addition, the Insurance Department would receive approximately \$600,000 in reduced revenue from eliminating agency appointment fees and lower retained retaliatory tax revenue. The approved budget for FY 2019 also includes a \$8,250,000 transfer from the Insurance Department Service Regulation Fund to the State General Fund. With lower revenues in the Insurance Department Service Regulation Fund that would result from the provisions of this bill, the Insurance Department indicates that the authorized transfer would need to be reduced or eliminated to maintain cashflow and provide adequate regulation of the insurance industry.

The Insurance Department indicates that under current law, it would collect approximately \$17.1 million in retaliatory taxes that are deposited in the State General Fund in FY 2019. The bill would reduce the amount of retaliatory taxes from agent and agency appointment fees by approximately 60.0 percent in FY 2019, or \$6.5 million. Retaliatory taxes are charged when other states charge Kansas insurers premium taxes, admission fees, deposits, and other charges that are in excess of those that Kansas charges insurers from other states.

The Insurance Department indicates that the bill would require \$1.5 million from the Insurance Department Service Regulation Fund in FY 2019 to implement the bill and to modify computer systems. The required programming for this bill by itself would be performed by outside contract programmer services. Any fiscal effect associated with HB 2499 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Glenda Haverkamp, Insurance