

Department of Fiscal Services
 Maryland General Assembly

FISCAL NOTE
Revised

House Bill 207 (Chairman, Economic Matters Committee)
 (Departmental - Maryland Insurance Administration)
 Economic Matters Referred to Finance

Insurance Fraud Prevention Fee - Payment

This amended departmental bill specifies which types of companies and insurance professionals must pay the insurance fraud prevention fee. The bill also alters the times and method of payment, and amount of the fee.

This bill takes effect on June 1, 1997.

Fiscal Summary

State Effect: Special fund revenues would increase \$378,600 in FY 1998; future year revenues reflect a two-year fee cycle and industry growth. Special fund expenditures would decrease \$18,400 in FY 1998; future year expenditure reductions reflect annual growth.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
SF Revenues	\$378,600	(\$512,600)	\$400,800	(\$553,900)	\$424,600
SF Expenditures	(18,400)	(19,000)	(19,700)	(20,300)	(21,000)
Net Effect	\$397,000	(\$493,600)	\$420,500	(\$533,600)	\$445,600

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small businesses (attached). Fiscal Services concurs with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Fiscal Analysis

Bill Summary: The bill provides that the fee for companies applies to insurers as well as health maintenance organizations, nonprofit health service plans, fraternal benefit societies, and other entities operating in the State under the regulatory jurisdiction of the Maryland Insurance Administration except for premium finance companies or motor clubs. The fee for companies is due each June 30, instead of each October 1 as under current law, and is payable with the renewal of a certificate of authority. The bill also provides that the fee for insurance professionals applies to licensed agents as well as brokers, public adjusters, insurance advisors, fraternal benefit agents, and third party administrators that are qualified, licensed, or registered by the administration. The fee for insurance professionals is due June 30 of every other year, instead of October 1 each year, is changed to \$15, and is payable through the license renewal system.

State Revenues: State revenues would increase by an estimated \$378,590 in fiscal 1998 and decrease by \$512,600 in fiscal 1999. This estimate is based on:

- the altered fraud prevention fee for 56,000 agents, changing from a \$10 annual fee to a \$15 biennial fee;
- 67 additional insurance companies required to pay the \$1,000 annual fraud prevention fee; and
- 2,106 additional insurance professionals required to pay the \$15 biennial fraud prevention fee.

The bill alters the payment of the fee for the 56,000 agents in the State that currently pay the fraud prevention fee from a \$10 annual payment to a \$15 biennial payment, which creates a biennial revenue increase half the size of the alternating revenue loss. In addition, each year revenues would increase by \$67,000 as a result of the additional 67 insurance companies subject to the \$1,000 annual fraud prevention fee. Moreover, every other year, revenues would increase based on an estimated 2,106 additional insurance professionals that would be subject to the biennial fraud prevention fee. The revenue projections in the out-years reflect the biennial fee payment schedule for insurance professionals and 3.5% annual growth in the number of insurance professionals (there is no projected growth in the number of companies). **Exhibit 1** details the yearly revenue projections:

**Exhibit 1
Revenue Changes Per Year**

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
\$15 Biennial Fee (56,000 agents in 1998; 3.5% growth)	\$280,000	(\$579,600)	\$299,945	(\$620,890)	\$321,311
67 Additional Insurance Companies (\$1,000 annual fee)	\$67,000	\$67,000	\$67,000	\$67,000	\$67,000
2,106 Additional Insurance Professionals (\$15 biennial fee; 3.5% growth)	\$31,590		\$33,840		\$36,293
Total	\$378,590	(\$512,600)	\$400,785	(\$553,890)	\$424,604

Source: Maryland Insurance Administration; Department of Fiscal Services

State Expenditures: By collecting the fraud prevention fee with license renewals, MIA would reduce expenditures associated with processing the fraud prevention fee. Based on 56,000 agents and 1,500 companies, fiscal 1998 savings in postage alone would be \$18,400. Future year savings reflect 3.5% annual growth in the number of agents (there is no projected growth in the number of companies). There could be additional savings for other supplies and administrative expenses involved in billing and processing payments.

It is noted that according to MIA's response to the November 1996 Legislative Audit report, in fiscal 1996 MIA spent more than \$60,000 to process the fraud prevention fee assessment.

Small Business Impact: Insurance agents, nearly all of which are small businesses, would benefit from the reduction in the fraud prevention fee from \$10 per year to \$15 for two years (effectively \$7.50 per year). In addition, there will be a minimal positive impact on small businesses in the insurance industry that realize administrative savings from MIA combining the billing of fees. However, there will be a minimal negative impact on small businesses that are now required to pay the \$15 biennial fraud prevention fee (nearly all of the companies that pay the \$1,000 annual fraud prevention fee are not small businesses).

Additional Comments: MIA has delayed collection of the fiscal 1997 fee because it planned to introduce this bill. In a November 1996 report by the Office of Legislative Audits, concern was expressed (in addition to a legal compliance matter) that delaying collection of the fee results in the general fund subsidizing the fraud prevention unit's expenditures throughout the year, causing a loss of interest income to the State. The audit recommended that MIA take immediate action to collect all outstanding fraud prevention fees that were due on or before October 1, 1996. In addition, the Department of Fiscal Services advised MIA in a January 13, 1997 letter that the issues relating to the

administration's decision to delay collection of the fiscal 1997 fee should be adequately disclosed during the bill hearing process.

Information Source(s): Maryland Insurance Administration, Department of Fiscal Services

Fiscal Note History: First Reader - January 20, 1997

lc Revised - House Third Reader - March 21, 1997

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