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FISCAL AND POLICY NOTE
Revised

Senate Bill 79
Finance

(Senator Middleton, *et al.*)

Economic Matters

Limited Lines - Travel Insurance

This bill alters the scope of travel insurance for which a limited lines licensee is authorized to act as an insurance producer. The bill also authorizes the Insurance Commissioner to issue a limited lines license to a business entity that sells travel insurance.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues decrease, by as much as \$100,000 every two years, due to the bill's likely reduction in the total number of limited lines travel insurance licenses issued by MIA. The reduction in licenses issued may also result in minimal workload efficiencies for MIA staff.

Local Effect: None. The bill does not affect local finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Travel Insurance

The bill repeals the authority of the Commissioner to issue a limited lines license to an individual who sells transportation tickets of a common carrier of persons and property and instead authorizes the Commissioner to issue a limited lines license to an individual or business entity that sells travel insurance.

The bill defines “travel insurance” as insurance coverage for personal risk incident to planned travel, including (1) interruption or cancellation of a trip or an event; (2) loss of baggage or personal effects; (3) damage to accommodations or a rental vehicle; or (4) sickness, accident, disability, or death occurring during travel, if issued as incidental to other coverage. “Travel insurance” does not include a major medical plan that provides comprehensive medical protection for a traveler on a trip lasting six months or longer, such as an individual working outside the United States or military personnel being deployed.

The bill allows travel retailers that make, arrange, or offer travel services to offer and disseminate travel insurance on behalf of and under the license of a limited lines travel insurance producer under specified conditions. “Offering and disseminating” is defined as providing general information, processing applications, and collecting premiums. A limited lines travel insurance producer is responsible for the acts of the travel retailer and must use reasonable means to ensure compliance by the travel retailer with the bill’s provisions.

A limited lines travel insurance producer must be in good standing with the Commissioner with respect to its license.

Required Disclosures to Customers and Prospective Customers

The limited lines travel producer or travel retailer must make the following disclosures in writing to a *purchaser* of travel insurance:

- a description of the material terms or the actual terms of the insurance coverage;
- a description of the process for filing a claim;
- a description of the review or cancellation process for the travel insurance policy;
- a disclosure explaining that the coverage may duplicate certain provisions of insurance coverage already provided by the purchaser’s homeowner’s, renter’s, health, or other similar insurance coverages as well as a statement explaining that the purchase of travel insurance would make it primary to any other duplicate or similar coverage;
- the identity and contact information of the insurer and limited lines travel insurance producer; and
- contact information for filing a complaint with the Commissioner.

The travel retailer must make available to a *prospective customer* written materials that:

- provide the identity and contact information of the limited lines travel insurance producer overseeing the activities of the travel retailer;
- explain that the purchase of travel insurance is not required in order to purchase any other product or service from the travel retailer; and
- explain that a travel retailer is allowed to provide general information about the insurance offered and disseminated by the travel retailer but is not qualified or authorized to answer technical questions about the insurance terms and conditions or to evaluate the adequacy of the customer's existing insurance coverage.

Registration, Training, and Prohibitions for Unlicensed Employees

At the time of licensure, the limited lines travel insurance producer must establish and maintain a Commissioner-approved register listing specified contact and identifying information of each travel retailer that offers and disseminates travel insurance on behalf of the limited lines travel insurance producer. This register must be submitted for inspection by the Commissioner if so requested by the Commissioner. The limited lines travel insurance producer must also certify that each travel retailer on its register complies with federal law.

The bill requires a limited lines travel insurance producer to designate one of its licensed employees as a responsible person to ensure its compliance with State laws and regulations for travel insurance. This employee, and any other officer or person who directs or controls the operations of the limited lines travel insurance producer, must comply with fingerprinting requirements applicable to insurance producers in the State.

The limited lines travel insurance producer must require each employee or authorized representative of the travel retailer whose duties include offering and disseminating travel insurance to receive a specified program of instruction or training, which is subject to review by the Commissioner.

A travel retailer's unlicensed employee or authorized representative is prohibited from (1) evaluating or interpreting the technical terms, benefits, and conditions of the offered travel insurance coverage; (2) evaluating or providing advice concerning a prospective purchaser's existing insurance coverage; or (3) holding himself or herself out as a limited lines travel insurance producer, any other insurance producer, or an insurance expert.

Compensation for Travel Retailers, Employees, and Authorized Representatives

The bill authorizes a travel retailer, who is listed on the aforementioned register, to receive compensation if the retailer's insurance-related activities, including its employees

or authorized representatives, are limited to offering and disseminating travel insurance on behalf of and under the direction of a limited lines travel insurance producer. A travel retailer may not compensate an employee or authorized representative for insurance-related activities in a manner that is based primarily on the number of customers who purchase travel insurance. This does not prohibit compensation to a travel retailer, its employees, or its authorized representatives for activities that are incidental to overall compensation.

The Commissioner must keep track of complaints from consumers related to the offering and disseminating of travel insurance by travel retailers, their employees, and their authorized representatives. Based on these complaints, and other information the Commissioner determines is necessary, the Commissioner must determine whether and how travel retailers, their employees, and their authorized representatives should be compensated for offering and disseminating travel insurance. By January 1, 2017, findings and recommendations must be reported to the Senate Finance Committee and House Economic Matters Committee.

Current Law: Except as otherwise specified, an insurance producer may not sell, solicit, or negotiate any insurance unless licensed to produce insurance of that type. MIA issues eight limited lines licenses for the sale of (1) title insurance; (2) travel insurance; (3) motor vehicle insurance; (4) health maintenance organization employees; (5) rental vehicle insurance; (6) credit insurance; (7) portable electronics insurance; and (8) viatical settlement brokers insurance.

A “common carrier” is a business entity that makes its services available to the public to transport any type of passenger or property in interstate or foreign commerce. The Commissioner may issue a limited lines license to sell travel insurance to an individual who sells transportation tickets of a common carrier that transports persons and property. This travel insurance line of authority may only be issued to individuals. Holders of this license must pay a fee of \$54 and fraud fee of \$15 (\$69 total) at the time of instatement and every two years thereafter. This license authorizes the licensee to act as an insurance producer only for travel-related policies of life insurance, accident insurance, or baggage insurance on personal effects. The Commissioner may require and provide special forms requiring information that the Commissioner considers proper in connection with the application or renewal of the travel insurance limited lines license.

Background: MIA reports that 1,703 actively licensed insurance producers hold the travel line of authority. According to the National Association of Insurance Commissioners, 46 jurisdictions have authorized the sale of travel insurance as a limited line.

In other jurisdictions with insurance systems similar to that required by the bill, insurers appoint a licensed producer (usually called a managing general agent) who is then directly responsible for an unlicensed retailer and its employees that offer insurance coverage for sale.

State Revenues: Each insurance producer who currently holds the travel line of authority pays a renewal fee of \$54 and fraud fee of \$15 (\$69 total) every two years. Given the 1,703 such insurance producers, MIA currently collects a total of \$117,507 from all holders of the travel insurance license every two years.

Because the bill allows business entities to obtain a single license for multiple travel retailers, the number of total licenses issued and, therefore, MIA special fund revenues may decrease substantially. *For illustrative purposes*, if only 200 entities (or individuals) were to obtain a license, there would be 1,503 fewer licensees, resulting in a reduction of \$103,707 in special fund revenue every two years. The exact reduction in revenue cannot be reliably estimated because it is unknown how many entities rather than or in addition to individuals will apply for and obtain a license. The reduction in issued licenses may also result in efficiencies related to workload as MIA will have fewer license requests and renewals to process.

Small Business Effect: The bill has a meaningful impact on business entities that plan to sell travel insurance, some of which may be small businesses. The bill allows a business entity to obtain a single license, instead of each individual who acts as a travel retailer needing a license. This reduces the amount in licensing fees that must be paid by a business.

Additional Information

Prior Introductions: HB 1135 and SB 687 of 2013 each received a hearing in the Economic Matters and Finance committees, respectively, but no further action was taken.

Cross File: HB 221 (Delegate Rudolph) - Economic Matters.

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

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