



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 19** SLS 13RS 159
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

| | | |
|--|---------|---------------------------------|
| Date: May 8, 2013 | 9:29 AM | Author: ALLAIN |
| Dept./Agy.: Louisiana Citizens Property Insurance Corporation | | |
| Subject: Restricts assessing rates in excess of 25% per year | | Analyst: Travis McIlwain |

PROPERTY INSURANCE

EG DECREASE SG RV See Note

Page 1 of 1

Prohibits Citizens Insurance Corporation from assessing rates in excess of 25% per year without approval from the Senate and House committees on insurance. (8/1/13)

Present law prohibits the plans made available by Louisiana Citizens Property Insurance Corporation (Citizens) from competing with the voluntary market, and provides that rates set by the governing board shall exceed specified policy rates by type and parish location. Proposed law retains present law and adds that rates set by the governing board of Citizens shall exceed the highest rates charged among assesable insurers that have a minimum of 2% of the total direct written premium in each respective parish for that line of business offered as a stand-alone coverage in the preceding year; prohibits Citizens from assessing rate increases in excess of 25% in a single year without approval of the House and Senate Committees on Insurance, acting jointly; provides that such joint meeting shall be held within 30 days of notification of the proposed rate increase by Citizens; provides for testimony requirements; and permits the implementation of the rate increase over a period of two to five years upon legislative approval. Effective August 1, 2013.

| EXPENDITURES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 5 -YEAR TOTAL |
|----------------|---------|---------|---------|---------|---------|---------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 5 -YEAR TOTAL |
|----------------|----------|----------|----------|----------|----------|---------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | | | | | | |

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The proposed legislation is anticipated to result in a decrease in premium collections of Citizens Property Insurance in the estimated amount of approximately \$16 million. The bill eliminates the market rate for the wind only product offering and provides for Citizens to charge the actuarial rate as opposed to the market rate. Citizens anticipates the difference in premium collections between charging the market rate and actuarial rate is an approximate \$14.5 million annual loss in premiums. The loss of revenue will impact the annual reserves available to pay insurance claims.

In addition, this bill prevents Citizens from implementing annual premium rate increases in excess of 25% for any parish without approval from the House and Senate committees on Insurance and may decrease premium collections in the amount of \$1.5 million. Effective June 2013 Citizens aggregate premium increase is 7.4%. However, included within this calculated 7.4% increase are specific product offerings on a per parish basis that are likely greater or less than than the 7.4% premium increase.

For illustrative purposes, according to information from Citizens of the 288 separate premium rates, 71 of them exceeded the 25% limitation in the proposed legislation. To the extent these premium increases were not allowed to exceed the 25% legislative limit as contained within proposed legislation, Citizens estimates the amount of premium loss to equate to \$1.5 million.

While the LFO can not readily corroborate a specific amount of premium revenue reduction, it does seem likely that the bill will constrain future Citizens’ premium revenue. Citizens Property Insurance Company changed their premium methodology in June 2012 for wind and hail policies, which resulted in triple digit percentage increases for some parish policy holders.

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| Senate | Dual Referral Rules | House | <div></div> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S} | Gregory V. Albrecht |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | Chief Economist |