LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 469** HLS 11RS 992
Bill Text Version: **RE-REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 6, 2011 7:32 PM
Author: ANDERS
Dept./Agy.: Department of Insurance
Subject: Surplus Lines
Analyst: Travis McIlwain

INSURANCE/SURPLUS LINE RR SEE FISC NOTE GF RV See Note
Provides relative to the tax on premiums paid for surplus lines insurance

Proposed legislation places in the statute the federal provisions of the Nonadmitted and Reinsurance Reform Act of 2010, which is contained within the Dodd-Frank Wall Street Reform and Consumer Protection Act. Proposed legislation requires the commissioner of insurance to enter into Nonadmitted Insurance Multi-State Agreements or other cooperative compacts agreements. Proposed legislation provides for the commissioner of insurance to promulgate rules and regulations for the administration and enforcement of any such agreement, including the assessment of a clearinghouse transaction fee.

The Nonadmitted and Reinsurance Reform Act's goal was to simplify the surplus lines agent's payment of premium taxes on multi-state risks by requiring all surplus lines premium taxes that cross multiple state boundaries be paid only to the insured's home state, as defined by the federal law. The federal law is in effect June 2011.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. Any additional administrative functions that proposed legislation would require will be absorbed with existing Department of Insurance (DOI) resources.

REVENUE EXPLANATION

The proposed legislation will have an indeterminable impact upon state general fund collections. The commissioner of insurance currently collects approximately $65.4 million in insurance premium taxes from surplus lines insurers of which the majority of the collections are from multi-state enterprises. This bill, which places in state law the federal requirements of the Nonadmitted and Reinsurance Reform Act of 2010, provides that all premium tax collections on surplus lines that cross multiple state boundaries be paid only to the insured's home state. It will then be the responsibility of the states to determine how the premium taxes paid on those transactions will be distributed to each state based upon the risk holdings of the various surplus lines brokers in various locations. These tax receipts will have to be disbursed through multi-state agreements or compacts. Proposed legislation is not modifying the premium tax rate. It is instituting in state law the federal requirements. In addition, this bill allows the commissioner of insurance to enter into such agreements, which would allow Louisiana to receive and disburse surplus lines tax revenues from insureds whose home state is not Louisiana, but with risk holdings in Louisiana.

Because the DOI does not have a breakdown of surplus lines insureds' home state designations, the specific state general fund revenue impact of the proposed legislation is indeterminable. However, because the majority of surplus lines premium collections in Louisiana are associated with multi-state enterprises, the federal law will likely reduce the amount of state general fund collections by an indeterminable amount. The proposed legislation requires the commissioner of insurance to enter into multi-state compacts for the purpose of sharing information and apportioning surplus lines premium taxes to the states, which could **mitigate** the potential loss of state general fund revenues. The specific states that do not participate within the compacts would likely retain surplus lines premium taxes that would otherwise be revenue to the risk home of the policy (the states currently receiving the tax dollars).

There are currently two various compacts in existence: 1.) Surplus Lines Multi-State Compliance Compact (SLIMPACT), 2.) Nonadmitted Insurance Multi-State Agreement. These two compacts would likely utilize a clearinghouse, which would apportion the surplus tax collections to the various participating states. Those states not participating would get to keep its surplus premium collections without them being apportioned. Proposed bill allows the DOI to promulgate in administrative rules the ability to charge a clearinghouse transaction fee, which would be paid by the surplus lines insurance policy holder.

Senate Dual Referral Rules House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
☐ 6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist