Individual State Agency Fiscal Note

Bill Number: 1704 HB	Title: Service contracts	Agency: 160-Office of Insurance Commissioner

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.0	0.3	0.2	0.1	0.1
Account					
Insurance Commissioners Regulatory Account-State 138-1	0	45,085	45,085	24,992	24,992
Total $	0	45,085	45,085	24,992	24,992

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 3 amends RCW 48.110.060 to allow contractual liability insurance policies (CLIPs) for service contracts and protection product guarantees to either fully insure (first dollar coverage) the obligations of the service contract/protection product guarantee provider or insure only in the event of service contract/protection product guarantee provider's default (default coverage.)

Section 5 amends RCW 48.110.070 to allow service contract providers and protection product guarantee providers to utilize more than one CLIP to demonstrate financial responsibility requirements under RCW 48.110.050, RCW 48.110.055, and RCW 48.110.075. All CLIP policy forms must be filed with the Office of Insurance Commissioner per the requirements of chapter 48.18 RCW.

Section 7 amends RCW 48.110.110 to allow for service contract providers or protection product guarantee providers to be considered as an agent of each insurer which issued the reimbursement insurance policy or policies.

Section 8 amends chapter 110.140 RCW to allow for consumer protection act protection against each insurer issuing the applicable service contract or protection product guarantee reimbursement insurance policy or policies.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 3 amends RCW 48.110.060 to allow contractual liability insurance policies (CLIPs) for service contracts and protection product guarantees to either fully insure (first dollar coverage) the obligations of the service contract/protection product guarantee provider or insure only in the event of service contract/protection product guarantee provider's default (default coverage.)

Section 3(1) will require the Office of Insurance Commissioner (OIC) to conduct 'normal' rulemaking, in FY2023, to define and clarify "nonperformance of the provider".

Section 5 amends RCW 48.110.070 to allow service contract providers and protection product guarantee providers to utilize more than one CLIP to demonstrate financial responsibility requirements under RCW 48.110.050, RCW 48.110.055, and RCW 48.110.075. All CLIP policy forms must be filed with the OIC per the requirements of chapter 48.18 RCW.

Section 3 and 5 will require the OIC to develop and apply new review standards for property and casualty form and rate filings. The OIC currently receives approximately 8 form filings and 24 rate filings for CLIP policies insuring service contract/protection product guarantee providers each year. These moderately complex filings take an average of 4 hours for form filing review and 3 hours for rate filing review each. Because this bill authorizes companies to utilize more than one policy issued through more than one company, it is assumed that OIC will receive an additional 5 form filings each year requiring 20 hours (5 form filings x 4 hours) of a Functional Program Analyst 3 and 12 rate filings each year requiring 36 hours (12 rate filings x 3 hours) of an Actuarial Analyst 3 beginning in FY2023. The OIC will also require one-time costs, in FY2023, of 8 hours of a Functional Program Analyst 4 (FPA4) to develop new review standards and speed-to-market tool, update checklist documents and filing instructions, and train staff.

Section 7 amends RCW 48.110.110 to allow for service contract providers or protection product guarantee providers to be considered as an agent of each insurer which issued the reimbursement insurance policy or policies.

Section 8 amends chapter 110.140 RCW to allow for consumer protection act protection against each insurer issuing the applicable service contract or protection product guarantee reimbursement insurance policy or policies.

The provisions of sections 7 and 8 will lead to a modest increase in referrals for enforcement. Based on past enforcement cases regarding service contract providers and protection product guarantees, OIC anticipates two additional enforcement case per year will be required. Investigations generally require between 25-80 hours per case and enforcement actions generally require between 25-100 hours per case. For purposes of this fiscal note, it is assumed that investigations will require an average of 25 hours per case and enforcement actions will require an average of 25 hours per case requiring 50 hours of an Investigator 3 and 50 hours of an Insurance Enforcement Specialist beginning in FY2023.

Ongoing costs:
Salary, benefits and associated costs for .01 FTE Functional Program Analyst 3; .02 FTE Actuarial Analyst 3; .03 FTE Investigator 3; and .03 FTE Insurance Enforcement Specialist.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
138-1	Insurance Commissioners Regulatory Account	State	0	45,085	45,085	24,992	24,992
		Total $	0	45,085	45,085	24,992	24,992

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		0.3	0.2	0.1	0.1
A-Salaries and Wages		27,150	27,150	14,894	14,894
B-Employee Benefits		8,918	8,918	5,100	5,100
C-Professional Service Contracts					
E-Goods and Other Services		9,017	9,017	4,998	4,998
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	0	45,085	45,085	24,992	24,992

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Actuarial Analyst 3	93,132		0.0	0.0	0.0	0.0
Functional Program Analyst 3	70,956		0.0	0.0	0.0	0.0
Functional Program Analyst 4	78,408		0.1	0.0		
Insurance Enforcement Specialist	87,852		0.0	0.0	0.0	0.0
Investigator 3	74,604		0.0	0.0	0.0	0.0
Senior Policy Analyst	99,996		0.2	0.1		
Total FTEs			0.3	0.2	0.1	0.1

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules .

Section 3(1) will require the Office of Insurance Commissioner to conduct 'normal' rulemaking, in FY2023, to define and clarify "nonperformance of the provider".