Individual State Agency Fiscal Note

Bill Number: 5319 SB	Title: Pet Insurance	Agency: 160-Office of Insurance Commissioner

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.1	0.7	0.9	0.7	0.7
Account					
Insurance Commissioners Regulatory Account-State 138-1	152,468	85,453	237,921	170,906	166,797
Total $	152,468	85,453	237,921	170,906	166,797

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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Agency Approval:	Michael Wood	Phone: 360-725-7007	Date: 01/16/2023
OFM Review:	Jason Brown	Phone: (360) 742-7277	Date: 01/17/2023

Part II: Narrative Explanation

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

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

Section 3(1) requires insurers to use the definitions set forth in section 2 and include the definition of the terms in the policy if the insurer uses any of the terms in a policy of pet insurance.

Section 4(2)(a) gives the right to pet insurance applicants, unless the insured has filed a claim under the pet insurance policy, to examine and return the policy, certificate, or endorsement to the company or an insurance producer appointed by the company within 15 days of its receipt and to have the premium refunded if the applicant is not satisfied for any reason. Section 4(2)(b) requires pet insurance policies, certificates, and endorsements to have a notice prominently printed on the first page or attached thereto including specific instructions to accomplish a return.

Section 4(1), and 4(3) through 4(10) establishes pet insurance disclosure requirements for pre-existing conditions, hereditary disorders, congenital anomalies/disorders, chronic conditions, other policy exclusions, waiting periods, coverage limits, underwriting company name, summary description of claim payment basis or formula, benefit schedules, usual and customary fee limitation provisions, medical examinations required to effectuate coverage, and waiting periods and the requirements applicable to them. Insurers must provide a separate document disclosing these policy provisions to consumers and post the document through a clear and conspicuous link on the main page of either the pet insurer's website or the pet insurer's program administrator's website.

Section 5 establishes the parameters for pre-existing condition exclusions and waiting periods for sickness and injury. Pre-existing conditions may be excluded with proper disclosure to the insured. Waiting periods for injury are not allowed and those for illness are limited to 30 days.

Section 8 authorizes the OIC to adopt rules necessary to implement and administer the chapter.

Section 10 creates an effective date of January 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Section 3(1) requires insurers to use the definitions set forth in section 2 and include the definition of the terms in the policy if the insurer uses any of the terms in a policy of pet insurance.

Section 4(2)(a) gives the right to pet insurance applicants, unless the insured has filed a claim under the pet insurance policy, to examine and return the policy, certificate, or endorsement to the company or an insurance producer appointed by the company within 15 days of its receipt and to have the premium refunded if the applicant is not satisfied for any reason. Section 4(2)(b) requires pet insurance policies, certificates, and endorsements to have a notice prominently printed on the first page or attached thereto including specific instructions to accomplish a return.

Section 4(1), and 4(3) through 4(10) establishes pet insurance disclosure requirements for pre-existing conditions, hereditary disorders, congenital anomalies/disorders, chronic conditions, other policy exclusions, waiting periods, coverage limits, underwriting company name, summary description of claim payment basis or formula, benefit schedules, usual and

customary fee limitation provisions, medical examinations required to effectuate coverage, and waiting periods and the requirements applicable to them. Insurers must provide a separate document disclosing these policy provisions to consumers and post the document through a clear and conspicuous link on the main page of either the pet insurer's website or the pet insurer's program administrator's website.

Section 5 establishes the parameters for pre-existing condition exclusions and waiting periods for sickness and injury. Pre-existing conditions may be excluded with proper disclosure to the insured. Waiting periods for injury are not allowed and those for illness are limited to 30 days.

Sections 3, 4, and 5 will require insurers issuing pet insurance products to make a one-time filing to refile rates and forms to account for policy definitions and provisions, waiting periods, disclosure document, and the 15-day free look period. There are currently 43 approved pet insurance product rate filings, with an average of 9 rate filing updates received each year, and 127 approved pet insurance product form filings. Each rate filing takes an average of 4 hours, and each form filing takes an average of 1.5 hours to review. In FY2024, one-time costs of 12 hours of a Functional Program Analyst 4 (FPA4) to update filing review standards, update checklist documents, and train staff; and one-time costs of 136 hours (34 rate filings x 4 hours) of an Actuary 2 and 190.5 hours (127 form filings x 1.5 hours) of a Functional Program Analyst 3 (FPA3) to conduct rate and form filing reviews will be required.

Sections 3 through 7 create conditions that are new to the pet insurance line of business and will require additional market analysis and market conduct examinations of pet insurers. The OIC conducted 11 pet insurance company market analysis reviews and 8 market conduct examinations between 2017 and 2022. Market analysis reviews require an average of 50 hours and market conduct examinations require an average of 120 hours per insurer to complete. The OIC assumes an additional 6 market analysis reviews and 6 market conduct examinations will be required each year beginning in FY2024 requiring 300 hours (6 market reviews x 50 hours) of a FPA4 and 720 hours (6 market conduct examinations x 120 hours) of a FPA3 to ensure the use of definitions are correct, disclosure required have been transmitted and properly written, waiting periods and use of preexisting conditions are closely followed, wellness plans are not intermingled with insurance products, and insurers are monitoring that producers have the required training.

OIC further assumes this bill will provide market clarity and uniformity across states that adopt the model. It is much more cost beneficial for insurance companies to enter marketplaces that have a uniform standard the same as other markets they are already in, because they do not have to create unique products and pricing. OIC assumes this will result in one new insurer entering the WA marketplace each year for at least for the next five years. Each new company application takes an average of 40 hours, each rate filing takes an average of 4 hours, and each form filing takes an average of 1.5 hours to review. For FY2024 through FY2028, costs of 40 hours of a FPA4, 4 hours of an Actuary 2 and 1.5 hours of a FPA3 to conduct rate and form filing reviews will be required each year.

Section 8 authorizes the OIC to adopt rules necessary to implement and administer the chapter. In FY2024, normal rulemaking is required to address wellness program marketing practices on websites that contain insurance products, provide a format for the disclosure document referenced in section 4, and to define "service provider" in section 6 that is not defined in section 2.

Ongoing Costs:
Salary, benefits and associated costs for .22 FTE Functional Program Analyst 4 and .44 FTE Functional Program Analyst 3.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
138-1	Insurance Commissioners Regulatory Account	State	152,468	85,453	237,921	170,906	166,797
		Total $	152,468	85,453	237,921	170,906	166,797

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.1	0.7	0.9	0.7	0.7
A-Salaries and Wages	90,567	50,043	140,610	100,086	97,658
B-Employee Benefits	31,407	18,319	49,726	36,638	35,779
C-Professional Service Contracts					
E-Goods and Other Services	30,494	17,091	47,585	34,182	33,360
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 $	152,468	85,453	237,921	170,906	166,797

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 2024	FY 2025	2023-25	2025-27	2027-29
Actuary 2	132,612	0.1		0.0		
Functional Program Analyst 3	73,260	0.6	0.4	0.5	0.4	0.4
Functional Program Analyst 4	80,952	0.3	0.2	0.3	0.2	0.2
Senior Policy Analyst	108,432	0.2		0.1		
Total FTEs		1.1	0.7	0.9	0.7	0.7

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

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

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Section 8 authorizes the OIC to adopt rules necessary to implement and administer the chapter. In FY2024, normal rulemaking is required to address wellness program marketing practices on websites that contain insurance products, provide a format for the disclosure document referenced in section 4, and to define "service provider" in section 6 that is not defined in

section 2.