BILL ANALYSIS

S.B. 1402
By: Lucio
Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Insurance premium finance companies and agreements are regulated by the Texas Department of Insurance and provide consumers a means of financing the payment of premiums due on an insurance policy through periodic payments instead of a lump sum payment. An insurance premium finance company and a customer will enter into a "premium finance agreement" under which the premium finance company agrees to pay the lump sum premium to the insurance company and the customer agrees to repay the premium finance company for the advance of those funds, including fees and expenses, with a down-payment and periodic installment payments. The premium finance agreements also contains an assignment of the insurance policy to the premium finance company and a limited power of attorney to the company authorizing it to cancel the policy in the event the customer defaults on an installment payment.

If a premium finance agreement is terminated prematurely as a result of the customer's prepayment of a full amount of the premium, or the customer's failure to timely pay an installment due, the customer may be entitled to a refund for the unearned premium paid prior to the cancellation of the agreements or the policy. Prior to 2005, a premium finance insurance company was required to refund any credit due to the insured customer in the amount of $1 or more.

Recognizing that the cost of issuing refund checks averaged approximately $5, the legislature increased the amount which a premium insurance finance company is required to refund unearned premium from $1 to $5 in 2005. However, the legislation changed only one of two provisions governing the refund amount.

As proposed, S.B. 1402 corrects the technical error to make changes to the unamended statute to conform it to the amended statute.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1. Amends Section 651.162(g), Insurance Code, as follows:

> (g) Provides that the insured is not entitled to a refund credit for excess unearned premiums if the excess amount of return premiums is less than $5, rather than $1. Thus, this subsection now reads that "If the crediting of return premiums to the account of an insured results in a surplus over the amount due from the insured, the insurance premium finance company shall refund the excess to the insured. If the amount of the excess is less than $5, the insured is not entitled to a refund credit."

SECTION 2. Effective date: upon passage or September 1, 2007.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007.