BILL ANALYSIS

H.B. 1975
By: Hancock
Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Insurance premium finance companies and premium finance agreements are regulated by the Texas Department of Insurance to provide consumers a means of financing premium payments due on an insurance policy, usually for commercial property, through periodic payments instead of a single lump payment. An insurance premium finance company and a customer enter into a premium finance agreement under which the premium finance company agrees to pay the lump sum premium to the insurance company providing the customer's desired coverage, and the customer agrees to repay the premium finance company for the advance of those funds, plus fees and expenses, with a down payment and periodic installment payments. This agreement also contains an assignment of the insurance policy to the premium finance company and a limited power of attorney authorizing the company to cancel the policy in the event the customer defaults on the customer's installment payments. If a premium finance agreement is terminated prematurely as a result of the customer's prepayment of the full amount of the premium, or the customer's failure to timely pay an installment due, the customer may be due a refund for the unearned premium paid before the cancellation of the agreement or the policy. Before 2005, the Insurance Code required a premium finance company to refund any credit due to the insured customer in the amount of $1 or more.

Recognizing that the cost of issuing such refund checks averaged approximately $5, and that 25 percent of those checks were never cashed, H.B. 2965 was enacted during the 79th Legislature, Regular Session, 2005, to increase the amount from $1 to $5 at which a premium insurance finance company is required to refund unearned premiums. However, H.B. 2965 changed only one of the two Insurance Code provisions governing the refund amount, applying the increased refund amount to those instances in which the credit resulted from the customer's prepayment of the policy premium but not to those instances in which the customer's credit resulted from default on an installment payment.

H.B. 1975 corrects this technical error by applying the same increased refund amount to Section 651.162, Insurance Code, as was applied to Section 651.158, Insurance Code, in H.B. 2965, enacted during the 79th Legislature, Regular Session, 2005.

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

H.B. 1975 amends the Insurance Code to increase from less than $1 to less than $5 the amount of excess unearned premiums that an insured is not entitled to receive from an insurance premium finance company when an insurance contract listed in a premium finance agreement is canceled, provided that the premium finance agreement contains an assignment or power of attorney for the benefit of the insurance premium finance company.

EFFECTIVE DATE

On passage, or, if the act does not receive the necessary vote, the act takes effect September 1, 2009.