Ohio Legislative Service Commission

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Office of Research and Drafting

Legislative Budget Office

S.B. 256
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 256's Bill Analysis

Version: As Reported by Senate Insurance

Primary Sponsor: Sen. Wilson

Local Impact Statement Procedure Required: No

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Highlights

- Taxing certain travel insurance premiums will increase revenue to the GRF to the extent that tax is not already being remitted on such premiums. Increases in GRF tax revenue likewise increase revenue to the Local Government Fund (LGF) and the Public Library Fund (PLF). LBO does not have an estimate of the magnitude of any such increases.
- Several provisions of the bill make changes to Department of Insurance (INS) duties, and may affect expenditures from the Department of Insurance Operating Fund (Fund 5540), including:
  - Augmenting the currently existing regulatory framework for travel insurance providers and requiring INS to monitor compliance
  - Requiring certain insurance holding companies to submit to INS the annual results of a liquidity stress test and a group capital calculation, both of which are measures of a holding company's financial viability.
  - Making changes to the list of practices defined as Unfair and Deceptive Practices in the business of insurance.
  - Allowing the Superintendent of Insurance to augment existing consumer protection requirements.
- Changes to the Unfair and Deceptive Practices list could also affect revenue to Fund 5540, because INS can levy monetary penalties against market participants who violate the bill's provisions; the amount of increased revenue will depend on market participants' compliance with the bill and existing law.

Detailed Analysis

The bill augments certain existing regulatory functions within the Department of Insurance (INS), and modifies a number of current practices with regard to the travel insurance market and its regulation in Ohio. The bill requires certain insurance companies and insurance holding company systems to annually submit documentation of their financial viability, in accordance with standards set forth by the National Association of Insurance Commissioners (NAIC). Among other changes, the bill also modifies the conditions under which travel retailers are permitted to sell travel insurance, and codifies general rules with respect to market conduct. The bill also includes provisions allowing the Superintendent of Insurance to develop additional consumer protection guidelines applicable to all insurers and agents. Lastly, the bill explicitly subjects travel insurance products purchased by Ohio residents and businesses to the foreign and domestic insurance premiums taxes.

There are other provisions of the bill, which have negligible or no fiscal impact.

Fiscal impact

Tax revenue

To the extent S.B. 256 increases the tax base on which the foreign and domestic insurance taxes are levied on travel insurance premiums, revenue accruing to the GRF will rise as a result. Distributions to the Local Government Fund (LGF) and Public Library Fund (PLF), which receive 1.66% and 1.70% of GRF tax revenue, respectively, are also affected.[1] LBO does not have an estimate of the magnitude of any such revenue increase.

The bill also adds coverage of three new risks to the list of coverages that are explicitly defined as travel insurance, potentially expanding the current insurance tax bases. Currently, insurance policies that cover the following specified travel risks are explicitly defined as travel insurance: (1) interruption or cancellation of a trip, (2) loss of baggage or personal effects, (3) damages to accommodations or rental vehicles, and (4) sickness, accident, disability, or death occurring during travel. The bill expands this list to include coverage for emergency evacuations and repatriation of remains. S.B. 256 also allows the Superintendent of Insurance to augment the list to include any approved travel-related contractual obligation. Similarly, the bill adds to the list of products and services that are explicitly excluded from the definition of travel insurance.

Regulatory filings

The bill subjects certain insurance holding companies to a series of annual liquidity stress tests, through procedures maintained by NAIC.[2] More specifically, each insurer must file documentation of two separate tests of the entity's overall financial health: (1) a liquidity stress

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[1] The LGF and PLF receive a set percentage of GRF tax revenue under continuing law. The distribution percentage for the PLF is set to revert to 1.66% under current law, following the expiry of uncodified provisions in H.B. 110 of the 134th General Assembly, in July 2023.

[2] For holding companies that operate in multiple states, NAIC has developed a "lead state" model of regulation. This provision of the bill applies to all holding companies operating in Ohio, but filings are to go to the lead state insurance regulator, which may not be INS.

test, calculated according to the financial analysis handbook adopted by NAIC, and (2) a group capital calculation in accordance with NAIC standards. The bill also details specific circumstances for companies which exempt them from the filing requirements.[3]

This provision of the bill increases INS administrative duties. The additional review of filings and applying subsequent INS regulatory and administrative procedures will increase the ongoing workflow within the agency. Funding for administration and oversight of INS financial filings is provided through both the Department of Insurance Operating Fund (Fund 5540) and the Superintendent's Examination Fund (Fund 5550). Fund 5550 is provided for through assessments on the companies being examined.

Consumer protections

The bill allows the Superintendent of Insurance to adopt rules and implement practices addressing consumer data protections, consumer disclosure agreements, unfair discrimination, and any other insurance matters the Superintendent considers pertinent to ensure the protection of insurance consumers in Ohio. The bill provides a listing of practices regarding insurers, policies, and value-added products the Superintendent is able to address through administrative rule. The bill's permissive consumer protections are in addition to the current set of regulations in place to prevent unfair business practices.[4]

Travel insurance regulation

The bill codifies regulatory practices with regards to travel insurance. Under the bill, INS is required to issue limited lines travel insurance agent licenses to businesses meeting the requirements, and to ensure both the agents and insurers offer travel insurance products in a manner consistent with rules established in the bill.[5] Monitoring compliance with and enforcing the bill's regulatory provisions will likely increase the workload at INS. LBO staff think that any increase in administrative expenditures for this purpose would likely be minimal. Currently, INS administrative costs are paid from Fund 5540. License fee revenue is deposited into this fund to defray these costs.

In addition, Fund 5540 may receive revenue from penalties assessed by the Superintendent of Insurance due to infringements of codified law or INS policy. Penalties for such infringements may be up to $3,500 per violation, up to $35,000 in any six-month period, and recovery of half of departmental costs, up to $100,000, for investigating the violations.[6] Any changes in revenue to this fund as a result of the bill will depend on the compliance of insurers and retailers with the bill's requirements.

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[3] Please refer to the LSC bill analysis for specifics on the businesses included and excluded.

[4] With regards to consumer protections provided by INS, the bill allows the Department to establish rules regulating both pre- and post-sale aspects of insurance transactions. These provisions may increase workload within the Department and potentially result in offsetting revenue through various assessments, fees, and fines.

[5] The bill details specific informational materials, policy documentation, marketing restrictions, and contractual limitations that agents and insurers must adhere to while conducting travel insurance business. Please refer to the LSC bill analysis for details on those specific provisions.

[6] Section 3901.22 of the Revised Code, not in the bill.

Generally, S.B. 256 specifies certain allowable pricing practices and subjects market participants to oversight regarding unfair or deceptive business practices. Other provisions in the bill include rules governing cancellation policies, and requirements relating to marketing and policy documentation.

Other provisions

The bill also reduces the minimum allowable interest rate used to calculate the nonforfeiture amount on annuities, and modifies current law related to title insurance joint ventures. LBO expects both provisions to have minimal, if any, fiscal effect.

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