

Act Number	Session	Bill Number	Total Number of Committee Pages	Total Number of House Pages	Total Number of Senate Pages
PA 71-425		6994	7	3	1
<u>Committee Pages:</u> <ul style="list-style-type: none"> <i>Insurance & Real Estate 110-116</i> 				<u>House Pages:</u> <ul style="list-style-type: none"> 3173-3175 	<u>Senate Pages:</u> <ul style="list-style-type: none"> 2476

H-114

**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
1971**

**VOL. 14
PART 7
3011-3376**

Wednesday, May 19, 1971

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company advertising or any public announcement or any circular or card, made or issued by any insurance company, authorized to transact business in this state which purport to make known the financial standing will not only show the assets but will also show the liabilities. IT does not in any way prevent the company from making their regular statements to their shareholders in a normal manner. A good bill and it should pass.

MR. SPEAKER:

Further remarks on the bill. If not, all those in favor indicate by saying Aye. Opposed. The bill is passed.

CLERK:

Calendar 961, Substitute for House Bill 6902 - An Act Concerning Members of the Liquor Control Commission.

MR. SPEAKER:

Gentleman from the 114th.

REPRESENTATIVE PRETE:

I move Calendar 961, Substitute for House Bill 6902 be passed retaining its place on the calendar.

MR. SPEAKER:

Unless there is objection, so ordered.

CLERK:

Calendar 962, Substitute for House Bill 6994 - An Act Concerning Insurance Premium Finance Companies.

MR. SPEAKER:

Gentleman from the 108th.

REPRESENTATIVE TOCINELLI:

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I move acceptance of the joint committee's favorable report and passage of the bill.

MR. SPEAKER:

Will you remark.

REPRESENTATIVE TOCINELLI:

This bill sponsored by the Connecticut Insurance Department brings regulation into a field that has been unregulated for years in the state of Connecticut. The bill is an adoption of the model bill enforced in Washington, D.C. and establishes procedures over companies specializing in the financing of insurance premiums. IT establishes maximum finance charges and uniform contracts and procedures to be followed by insurance agents or brokers in instituting such finance arrangements. IT is a good bill and I urge passage.

MR. SPEAKER:

Will you remark further. If not, all those in favor indicate by saying Aye. Opposed. The bill is passed.

CLERK:

Page 7, Calendar 964, Substitute for House Bill 7804 - An Act Concerning Sales Authorized Under Package Store Permits.

MR. SPEAKER:

Representative PRETE.

REPRESENTATIVE PRETE:

I move acceptance of the joint committee's favorable report and passage of the bill.

MR. SPEAKER:

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Will you remark.

REPRESENTATIVE PRETE:

This bill clarifies language in the existing statute which allows a liquor permittee to sell merchandise related to alcoholic beverages.

MR. SPEAKER:

Further remarks on the bill. If not, all those in favor indicate by saying Aye. Opposed. The bill is passed.

CLERK:

Calendar 965, substitute for House Bill 8005 - An Act Concerning the Licensing and Regulation of Consumer Collection Agencies.

MR. SPEAKER:

Representative Mahaney.

REPRESENTATIVE MAHANEY:

May this matter be passed temporarily, we're awaiting an amendment.

MR. SPEAKER:

So ordered.

CLERK:

Calendar 966, Substitute for House Bill 8360 - An Act Concerning Issuance of Certificates on Housing Authority Projects

MR. SPEAKER:

Representative Gudelski.

REPRESENTATIVE GUDELSKI:

I move acceptance of the joint committee's favorable report

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SENATE

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PART 6
2436-2873**

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accepted accounting principles on both an annual and an interim basis.

Statements on a statutory basis will remain available.

THE CHAIR:

Question is on passage. Will you remark further? If not, all those in favor signify by saying Aye. Opposed, Nay? The bill is passed.

THE CLERK:

Calendar 871, file 1049, Favorable Report of the Committee on Insurance and Real Estate on Sub HB 6994, An Act concerning Insurance Premium Finance Companies.

SENATOR DINIELLI:

Mr. President, I move acceptance of the committee's favorable report and passage of the bill. This bill brings regulation into a field that has been unregulated for years in the State of Connecticut. It establishes maximum finance charges and uniform contract procedures to be followed by insurance agents or brokers in instituting finance arrangements by insurance premium finance companies.

THE CHAIR:

Question is on passage. Will you remark further? If not, all those in favor signify by saying Aye. Opposed, nay? The ayes have it. The bill is passed.

THE CLERK:

Calendar 878, File 1248, Favorable Report of the Committee on Transportation on Sub SB 381, An Act concerning Operating Overweight Commercial Vehicles.

SENATOR MONDANI:

Mr. President, I move acceptance of the Joint Committee's favorable report and passage of the bill. The bill amends the section on overweight

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Mr. Wholey continued: that if she were hospitalized she would have a \$3200 a month income. Obviously she couldn't pay for the insurance and we got it to the second year and she approached an attorney who brought it to our office, we got the various companies together and we ended up by having the policies rescinded. \$10,620 was refunded to the woman. One accident and health company issued 8 of those accident and health policies, we asked what they had in mind with their sense of rules on underwriting.

Well the monies were refunded. This is not a routine everyday case. And obviously the agent is no longer in the insurance business.

Sen. Dinielli: HB-6871 An Act Concerning Regulation of Casualty Insurance Rates

Mr. Wholey: Industry I think will speak on this I'm sure. It is not our bill. Let Mr. Kelly speak on this one.

Mr. Kelly, Insurance Department: Mr. Chairman on HB-6996 this is a short one. The General Assembly during its 1969 Session passed public act 444 which concerned the acquisition of domestic insurance companies by non-insurance entities and it also provided for the regulation of domestic insurance companies that are part of a insurance holding company system. The bill when it was passed was one of the first in the United States. Since then other states have enacted similar legislation.

The laws of these other states define the extraordinary dividends if it exceeds among other tests 10% of the surplus of the company. Connecticut Law Section 38-39 H defines an extraordinary dividend as 15% of surplus. This bill reduces it to 10% and brings it in line with the laws of other states. Any questions on that?

Mr. Wholey, Insurance Department: HB-6994 AN ACT CONCERNING INSURANCE PREMIUM FINANCE COMPANIES; This is submitted by the Department. We are now concerned with an area that is unregulated. The insurance premium finance company's activities are very broad in the state. Quite a few insurance companies have subsidiary corporations organized for the purpose of financing insurance premiums. There are many private lenders in this field.

There is no specific regulation on rates, forms or anything else. Abuses are fairly apparent particularly concerning the amount charged to a borrower. The only ceiling that is in the picture in the State of Connecticut is the usury law which sets

Mr. Wholey continued: a ceiling of 12% simple interest if I loan my money to somebody. And we have seen many instances where at least in our preliminary opinion there are violations of that. It is a type of business which if managed properly could be considered a non-loser. Usually a down payment from the insured is required. The monthly payments always keep the finance companies ahead for the short rate cancellation table in the fire and casualty policies. The failure to make payments on time gives the right under the power of attorney to the finance company to cancel the policy and receive the unearned premium. Invariably this unearned premium is an excess of the amount owed. The overage of course must be returned to the borrower.

The bill that we have submitted is a copy of the Washington D, C. Premium Finance Act and is considered somewhat of a model throughout the country. We had discussed this matter with the Connecticut Banking Department and have not yet received their considered advices as to whether or not it should be administered by them or us. They are in the finance control business and so forth and possibly it might be better in their jurisdiction if we were to work that out with them we would submit a recommendation for your consideration on this particular bill.

I understand that there are some 19 states at the moment that have similar legislation in operation. I think it's a field that needs some controlling.

Mr. LaRosa: Would this bill outlaw some of the outfits that are doing business in Connecticut? I know that there are many outfits right now who are very reputable. We do business with them and we have no problems. On the other hand you've indicated that there are some premium finance companies that there have been problems with. I think of IFA and AFCO, Broadway Bank.

Mr. Wholey: This bill will outlaw no operation. This bill will make a uniform procedure available included in the bill is the right of the Commissioner whoever that Commissioner might be to adopt rules and regulations for uniform procedures of form, rates, controls etc. I think almost any agent in this room knows sometimes the difficulties that can arise when cancellations take place, attempting to get the returned premiums, credited properly and sometimes the bigger the operation the tougher the problem.

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Mr. Wholey continued: Any questions?

Rep. Vicino: I think what this bill does is to prohibit any agent in Connecticut obtaining a service fee from the finance company or institution.

Mr. Wholey: That's included in here. There is an anti-rebate provision in here.

Rep. Vicino: I think that had we passed, or had the department interpreted our bill that we had passed last time correctly at least I think correctly, we would have eliminated this because many agents use this to obtain additional fee on business that is very unprofitable such as assigned risks business where the development of 8% commission and no way to obtain an extra service for this unusually difficult business to place. So they are using this vehicle to try to develop additional commission income.

Mr. Wholey: And I think you recognize that there is a wide variance between finance companies and some that don't pay any and some that pay a very medium one and some that let you take your own choice. Charge whatever you want.

Rep. Vicino: I don't know personally of any company that will pay for example on a premium of \$500 more than \$10 fee. I don't know of any.

Mr. Wholey: I don't know of any either.

Sen. Dinielli: Any other questions from the committee on that bill? O. K. Mr. Wholey.

Peter Kelly, Insurance Department: Speaking on HB-6993. This bill contains two new changes in Section 38-50 of the General Statutes. They are one \$1,000 filing fee filing an application for a license to do business in Connecticut. And two provides that after notice and hearing the Insurance Commissioner may issue a regulation providing fees for filing life, accident and health policy forms, riders, endorsements etc. The bill follows pretty closely similar provisions in the insurance laws of the State or California. This is where we copied the idea. Last year the Department had 82 applications from companies seeking a license to do business in Connecticut. 16 were licensed, The balance were either denied or still pending because of incomplete data. Many of the companies never met the minimum standards statutory requirements and we believe they were filed by the company without even taking

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Mr. Kelly continued: the time to briefly review our laws. We would expect the fee would not deter the sound well managed companies from applying in Connecticut since it hasn't in California. And it will defray the cost involved in reviewing such applications. We under the retaliatory law are now collecting this fee from companies incorporated in California applying to the State of Connecticut. That's on the application fee of \$1,000.

The second part, the policy fee. The Department presently has one man and a secretary assigned full time to the review of polciy forms. Three others devote some of their time to this area. No charge is made by the Department for filing or approval of these forms. Many companies file forms and then never use them. In fact we've had companies filing in Connecticut for rate increases on forms which they never sold. This involves the same amount of work. We now collect from the California schedule of fees under our retaliatory law from California insurance companies doing business in Connecticut.

We have found that the number of forms filed by California companies have dropped off since we started charging. We believe they are now filing only those forms that they intend to market in Connecticut. These fees would subject the Connecticut companies to similar fees in other states under the retaliatory law. Most Connecticut companies are licensed in all states. So the application fee of \$1,000 would not have that much effect. The policy fee would. But the California companies seem to be living with the retaliatory provisions of the other 49 states and we would think that the Connecticut companies could do likewise. Thank you sir.

Sen. Dinielli: Any questions? Sir.

Edward Denton, AFCO, premium finance company: We are the only company in the country is licensed under all of the 19 laws that exist in those states. Now we are in favor of the passage of HB-6994 except for one suggestion. In section 9c there is not a provision which produces enough income on the smaller sized premiums to cover cost. Now all the other premium laws in the other 19 states provide for such a charge.

Now that the reason that an additional charge over the \$9 per \$100 is necessary is that first of all many of the premiums that financed are relatively small dollar amounts. Now we unlike other lending companies have no control over the dollar amount of the transaction. And if it is only a \$200 premium that needs to be financed that is all we can

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Mr. Denton continued: It isn't like say a bank or a loan company where if a man walks into borrow \$200 he will walk out with \$400 or \$500. And therefore enough income is produced to handle the cost. If you go into a bank to borrow \$200 the probability is that they will not lend it to you because it does not produce enough income.

Now because of the small dollar amount on many accounts and for example 20% of all are accounts are under \$250 and with many of our competitors a much greater per cent of their accounts are in a small dollar amount. For example in North Carolina last year there were 271, 000 people financing their premiums and the average dollar amount was \$110. So that there are many small premiums that are financed. Now without the additional charge noone in the business could afford to handle these small accounts and therefore the facilities would not be available and people would do it on a subterranean basis more or less as it is being done now.

Now some specific charges of what are permitted in other states, for example would be that in Florida, South Carolina, and Oregon \$9 per 100 which is included in this bill plus a \$10 charge per account. In Georgia it is \$7 per \$100 plus \$12 per account and in Oregon and Washinton it's \$10 per 100 and \$10 an account.

Now are recommendation is that Section 9c be ammended to provide for the charge at \$9 per 100 plus \$10 an account which would produce enough income on these smaller accounts to keep the legitimate people in the business and rendering this service and making this facility available.

We have here a proposed ammendment to Section 9c.

Sen. Dinielli: Thank you Mr. Denton.

Mr. Denton: Just one last point. In most states the jurisdiction of the finance companies in under the insurance department and it is our experience from experiencing both that regulation is best under the insurance department because if any problems come up the insurance department has jurisdiction over all three. The agent, the company and the premium finance company. Our recommendation would be that way.

Sen. Dinielli: Any questions? No questions. Thank you Mr. Denton. Anyone else? sir

Jack Nahas, Premium Finance business, White Plains, UNIPLAN:
We are licensed to do business in the state of New York and the state of New Jersey. I would like to mention that I am a resident of the State of Connecticut and was a resident prior to entering into the premium finance business.

We welcome a bill that would regulate the insurance premium business and thus prevent some operators to do underground business in Connecticut and to charge what they want. Mostly beyond the 12% permitted by the Statute. Speaking for myself as a resident of Connecticut I have not solicited business in Connecticut nor have I done any business even though some of my friends in the insurance business have urged me to do so. I have not done business in the state because at 12% it is not economically sound and to charge more would be a violation of the statute.

Consequently we support the bill 6994 that, but we would like to see some modification in the proposed bill that in our opinion would make it fair to everyone. The proposed bill sets a ceiling by limiting to the maximum of 9% the service charge the premium finance company would be allowed to charge in Connecticut. We believe that the act to be fair to all concerned should take into account basic cost facts that no one can escape.

The law once enacted is to regulate an industry and I am sure it is not intended to drive it out of business. It is obvious that on small contracts the proposed service charge of 9% per annum would mean to the premium finance company a loss of money on the small contracts.

Cost of money is a constant factor which means that to premium finance companies percentage wise it costs the same to obtain money for small or large contracts. However the cost of administering a contract is a fixed factor, whether the amount financed is a small or large one. Unless we have a minimum to permit us to cover the fixed administrative expenses or in other words the cost of running our office we would be forced because we would have no other choice but to be selective and turn down small contracts. With the obvious result that those who need financing the most would be hurt. These are the people who cannot get bank loans. Now how could we be selective I do not know how we could be but I am sure we would have to find a way to tell the insurance that we cannot accept contracts below a certain figure.

To conclude we take the liberty to suggest that the bill permit the premium finance companies in addition to the 9%

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Mr. Nahas continued: interest to charge a flat fee of \$10 per contract regardless of the amount of the contract. We are very much in favor of having the proposed act when it becomes law be regulated by the insurance department. Thank you.

Sen. Dinielli: Mr. Nahas would you then, if you do find it profitable on the large loans, contract loans, would it make sense to set a limit on the amount that would be set, the basic service charge say under \$500 or over or under \$750 or whatever.

Mr. Nahas: Well I would have to work out figures. I couldn't intelligently answer that however it becomes now an administrative problem. You are closing a problem by creating another one. We have to bear in mind what we think, bear in mind Mr. Chairman one thing people that let us say have large premiums, big insurance premiums, they don't come to us. Those people they go directly to the banks and they get it. Now our contracts, the average is a contract of \$250 so when we say the average is \$250 we have our largest portion is our small contracts.

How ever we come to the average is when you get the contract for many cars which is the accident more than the rule. The rule is the small small contract.

Sen. Dinielli: Thank you. Any other questions? O.K. Mr. Nahas. Thank you.

Willard Yeats, Aetna Life and Casualty Company, lawyer:
Mr. Chairman, members of the committee I would speak very briefly to the Department bill which would reduce the incontestable period on accident and health insurance policies. This HB-6875 Mr. Wholey explained it as a bill which would reduce the present incontestable period from 3 years to 2 years. It would accomplish this reduction by importing into the accident and health insurance law provisions found now in the life insurance laws.

I would point out that while we are not opposed to a reduction in the time period and that 2 years is satisfactory, if this committee is inclined to agree. We would not do it by importing provisions designed for life insurance into an accident and health standard provisions law.

What you have in this bill is 2 lines replacing about a page and a half of pretty detailed complex language which has been workked out over the years beginning with