

  
 Colorado Legislative Council Staff Fiscal Note  
**STATE**  
**FISCAL IMPACT**

**Drafting Number:** LLS 12-0715  
**Prime Sponsor(s):** Rep. Gerou  
 Sen. Hodge

**Date:** February 14, 2012  
**Bill Status:** House Finance  
**Fiscal Analyst:** Clare Pramuk (303-866-2677)

**TITLE:** CONCERNING CHANGES TO THE "NONADMITTED INSURANCE ACT" TO CONFORM IT TO THE REQUIREMENTS OF THE FEDERAL "NONADMITTED AND REINSURANCE REFORM ACT OF 2010".

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
<b>State Revenue</b> General Fund	<\$4 million See State Revenue section.	<\$4 million See State Revenue section.
<b>State Expenditures</b>	See State Expenditures section.	
<b>FTE Position Change</b>		
<b>Effective Date:</b> August 8, 2012, if the General Assembly adjourns on May 9, 2012, as scheduled, and no referendum petition is filed.		
<b>Appropriation Summary for FY 2012-2013:</b> None required.		
<b>Local Government Impact:</b> None.		

**Summary of Legislation**

Congress passed the Nonadmitted and Reinsurance Reform Act of 2010 (NRRA), which preempts certain provisions of the Colorado Nonadmitted Insurance Act with regards the sale of surplus lines insurance and the collection of surplus lines premium taxes. This bill, *recommended by the Joint Budget Committee*, conforms to the NRRA and allows the Division of Insurance in the Department of Regulatory Agencies (DORA) to collect all possible premium taxes on multistate insurance policies. It also enables the division to collect premium taxes on surplus lines insurance more than once annually. It gives the Commissioner of Insurance the authority to enter into a multistate compact to manage, collect, and properly distribute all appropriate premium taxes.

Under current law, an insurance company that does not have a certificate of authority to transact business in Colorado can be approved by the commissioner to write nonadmitted insurance. This bill restricts the eligibility requirements that the commissioner can impose on nonadmitted insurance companies by making them subject to national eligibility requirements in conformance with the NRRA. Further, the bill allows surplus lines policies to be procured directly from the nonadmitted insurance company by a buyer rather than through a surplus lines broker. The bill enables the direct transaction to be assessed premium taxes.

### **Background**

Authorized, nonadmitted insurance companies can operate in Colorado without a certificate of authority to transact business in the state. Surplus lines insurance means coverage placed with an approved nonadmitted insurance company. Surplus lines insurance can only be procured when there is a documented lack of availability from an admitted insurance company or when an admitted insurance company quotes a rate more than 10 percent above that quoted by a nonadmitted insurance company. These policies are not protected by the Colorado Insurance Guaranty Association Act.

### **State Revenue**

This bill enables the Division of Insurance in the DORA to recover General Fund revenue from premium taxes on multistate policies through tax sharing agreements. The amount that can be recovered cannot be determined but is expected to be less than \$4 million annually.

### **State Expenditures**

This bill will require a minimal increase in workload for the Division of Insurance. The division will need to conduct rulemaking and do outreach to nonadmitted insurance companies and brokers. This is standard procedure and can be accomplished within existing resources.

### **Departments Contacted**

Regulatory Agencies

JBC Staff