


Colorado Legislative Council Staff
STATE
FISCAL IMPACT

Drafting Number: LLS 06-0345
Prime Sponsor(s): Rep. Butcher

Date: January 19, 2006
Bill Status: House Business Affairs and Labor
Fiscal Analyst: Amy Larsen (303-866-3488)

TITLE: CONCERNING REFERRAL BY AN INSURANCE COMPANY OF AN INSURED TO A PERSONAL PROPERTY REPAIR BUSINESS.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
State Revenues		
General Fund	(\$9,582)	(\$9,582)
State Expenditures		
Cash Funds - Division of Insurance Cash Fund	\$9,582	\$9,582
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: Upon Signature of the Governor		
Appropriation Summary for FY 2006/07:		
Department of Regulatory Agencies, Division of Insurance: \$9,582 CF		
Local Government Impact: None		

Summary of Legislation

This bill prohibits certain types of business practices by a property and casualty insurer. These prohibitions include: requiring that appraisals or repairs be made by a specified repair business, representing to a claimant that the failure to use a particular repair business may result in nonpayment, and soliciting a referral fee in exchange for referring claimants to a repair business. The bill also requires property and casualty insurers to do the following:

- provide the claimant with a copy of the estimate upon which a settlement is based;
- require that any estimate prepared by or for the insurer is adequate to restore the property to its condition before the loss;
- pay for repair services and products based on the prevailing competitive price;
- disclose to claimants that they may freely choose any repair business;
- assume all reasonable costs sufficient to pay for the claimant's repairs;
- provide notice of what constitutes an unfair or discriminatory trade practice when a claim is made;
- promptly pay the cost of repairs less the deductible according to the terms of the insurance policy; and
- disclose any ownership interest in or affiliation with a recommended repair business.

The bill further specifies that written complaints may be submitted to the Commissioner of Insurance regarding violations of these provisions. Currently, these provisions apply to auto insurance only.

State Revenues

General Fund revenue is anticipated to decrease \$9,582 in FY 2006-07 and FY 2007-08. The Department of Regulatory Agencies, Division of Insurance, is funded from a diversion of premium tax revenue that would otherwise be credited to the General Fund. Since this bill requires increased expenditures from the Division of Insurance Cash Fund, a corresponding negative General Fund Revenue impact is expected.

State Expenditures

This bill will increase state expenditures of the Department of Regulatory Agencies, Division of Insurance, by an estimated \$9,582 cash funds in FY 2006-07 and FY 2007-08. While the division currently responds to complaints from policy holders regarding claim settlements and authorized repair facilities, this bill specifically authorizes repair businesses to submit complaints to the Insurance Commissioner. An additional 90 written complaints are anticipated primarily from repair vendors and public adjusters for homeowner's insurance claims. Complaints take an average of 4 hours each to resolve, resulting in additional expenditures for 360 hours of Rate Analyst II time ($4 \times 90 = 360$). In out years, once insurers become familiar with the provisions of this bill and revise their practices, the number of complaints is expected to decrease.

Note: The division anticipated an increase of 200 complaints per year based on its general knowledge and experience. The fiscal note anticipates 90 additional complaints based on the three-year average of 90 complaints per year from homeowner's insureds regarding settlement offers and disputed values, and the expansion to allow all types of repair facilities to submit written complaints. The actual number of additional complaints will depend on numerous factors including insurance company compliance and public awareness of the bill's provisions.

State Appropriations

For FY 2006-07, the fiscal note indicates that the Department of Regulatory Agencies, Division of Insurance should receive an appropriation of \$9,582 Division of Insurance Cash Fund.

Departments Contacted

Regulatory Agencies