

SUBCHAPTER E. Examinations and Annual Reports
28 TAC §25.88

INTRODUCTION. The Texas Department of Insurance proposes amendments to 28 Texas Administrative Code §25.88, concerning an assessment that will be used to cover the general administrative expenses of the department's regulation of insurance premium finance companies.

EXPLANATION. The proposed amendments are necessary to adopt the rate of assessment to ensure that there are sufficient funds to meet the expenses of performing the department's statutory responsibilities for examining, investigating, and regulating insurance premium finance companies. Under §25.88, the department levies a rate of assessment to cover the department's general administrative expenses for each year.

The department has determined that the estimated revenue need requires the collection of the minimum assessment amount of \$250 from each insurance premium finance company for each year.

The department proposes an amendment in the first sentence of the section to update the reference when the assessment is due and substitutes “of each year” after April 1 instead of a specific year to reflect the payment is due every year. If the assessment does not change, then §25.88 will not have to be amended annually to change the year.

The department proposes an amendment to the second sentence of this section relating to where payments must be sent. The department deletes the specific address and adds that the address can be found on department invoices sent to premium finance companies. If the assessment amount does not change, then §25.88 will not have to be amended when the address changes.

Finally, the department proposes amendments that are nonsubstantive in nature to conform with the department's writing style guides. In the first sentence, the department deletes the word “each” and adds the word “every” before insurance premium finance company so that “each” is not used twice in the same sentence.

The following paragraphs provide an explanation of the methodology the department used to determine its assessments for insurance premium finance companies for each year.

In general, the department's revenue need (the amount that must be funded by maintenance taxes or fees; examination overhead assessments; the department's self-directed budget account, as established under Insurance Code §401.252; and premium finance exam assessments) is determined by calculating the department's total cost need, and subtracting from that number funds resulting from fee revenue and funds remaining from the previous fiscal year.

To determine its total cost need, the department combined costs from the following: (i) appropriations set out in the General Appropriations Act by the Texas Legislature, which come from two funds, the General Revenue Dedicated - Texas Department of Insurance Operating Account No. 0036 (Account No. 0036) and the General Revenue Fund - Insurance Companies Maintenance Tax and Insurance Department Fees; (ii) funds allowed by Insurance Code Subchapters D and F of Chapter 401 as approved by the commissioner for the self-directed budget account in the Treasury Safekeeping Trust Company to be used exclusively to pay examination costs associated with salary, travel, or other personnel expenses; (iii) an estimate of other costs statutorily required to be paid from those two funds and the self-directed budget account, such as fringe benefits and statewide allocated costs; and (iv) an estimate of the cash amount necessary to finance both funds and the self-directed budget account from the end of each fiscal year until the next assessment collection period. From these combined costs, the department subtracted costs attributable to the Division of Workers' Compensation and the workers' compensation research and evaluation group.

The department determined how to allocate the revenue need to be attributed to each funding source using the following method:

For each section within the department that provides services directly to the public or the insurance industry, the department allocated the costs for providing those direct services on a percentage basis to each funding source, such as the maintenance tax or fee line, the premium finance assessment, the examination assessment, the self-directed budget account as limited by Insurance Code §401.252, or another funding source.

The department applied these percentages to each section's annual budget to determine the total direct cost to each funding source. The department calculated a percentage for each funding source by dividing the total directly allocated to each funding source by the total of the direct cost. The department used this percentage to allocate administrative support costs to each funding source. Examples of administrative support costs include services provided by human resources, accounting, budget, the commissioner's administration, and information technology. The department calculated the total of direct costs and administrative support costs for each funding source.

The department's examination division bases its current allocation on the number of hours market conduct staff performs examinations on premium finance companies.

To complete the calculation of the revenue need, the department combined the costs allocated to the premium finance assessment source and the self-directed source attributable to regulation of premium finance insurance companies. The department subtracted the current fiscal year estimated amount of premium finance fee revenue and the estimated combined previous fiscal year's ending funding balance of the premium finance assessment source and the self-directed budget account attributable to premium finance from the amount of the combined costs for regulation of premium finance insurance companies. The resulting balance was the amount of revenue need for the purpose of calculating the premium finance assessment rate. The department divided the revenue need by the estimated loan dollar volume to determine the proposed rate of assessment for premium finance insurance companies. Based on this, the department determined that the estimated revenue need requires the collection of the minimum assessment amount of \$250 from each insurance premium finance company.

FISCAL NOTE AND LOCAL EMPLOYMENT IMPACT STATEMENT. Joe Meyer, assistant chief financial officer, has determined that for each year of the first five years the proposal will be in effect, the expected fiscal impact on state government is estimated income of \$48,500 to the Texas Department of Insurance examination self-directed account in the Texas Treasury Safekeeping Trust Company. There will be no fiscal implications for local government

as a result of enforcing or administering the proposed section, and there will be no effect on local employment or local economy.

PUBLIC BENEFIT AND COST NOTE. Mr. Meyer also has determined that for each year of the first five years the proposed amended section is in effect, the public benefit expected as a result of enforcing the section will be sufficient funds to cover the department's expenses for regulating insurance premium finance companies.

There are two components of costs for entities required to comply with the proposal: the cost to gather information and complete the required forms, and the cost of the assessment.

The actual cost of gathering the information required to fill out and complete the form will be the same for micro, small, and large businesses. A person familiar with the accounting records of the company and accounting practices in general will probably perform the activities necessary to comply with the section. These persons are similarly compensated by micro, small, and large insurance premium finance companies. The compensation is generally between \$24 and \$40 an hour. The department estimates that, regardless of whether the company is micro, small, or large, the required form can be completed in two hours.

The requirement to pay the assessment is the result of the legislative enactment of the statute that imposes the assessment and is not a result of the adoption or enforcement of this proposal.

There is no difference in proposed rates of assessment for micro, small, and large businesses. The cost of the assessment to a premium finance company next year, regardless of whether the company is micro, small, or large, will be \$250, which has been the minimum assessment cost under §25.88 in previous years.

The department, after considering the purpose of the authorizing statute, does not believe it is legal or feasible to waive or modify the statutorily mandated requirements of the proposal for small and micro businesses.

ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS FOR SMALL AND MICRO BUSINESSES. As required by Government Code §2006.002(c),

the department has determined that the proposal may have an adverse economic effect on approximately 99 licensed insurance premium finance companies that are small or micro businesses required to comply with the proposed rules. Adverse economic impact may result from costs associated with the amount of the required examination fee resulting from this proposal. The cost of compliance will not vary between large businesses and small or micro businesses, and the department's cost analysis and resulting estimated costs in the public benefit and cost note portion of this proposal is equally applicable to small or micro businesses. The total cost of compliance to large businesses and small or micro businesses is not dependent on the size of the business, but rather is dependent on each insurance premium finance company paying the \$250 minimum assessment.

In accord with Government Code §2006.002(c-1), the department has considered other regulatory methods to accomplish the objectives of the proposal that will also minimize any adverse impact on small and micro businesses.

The primary objective of the proposal is to issue a rule addressing the rate of assessment to cover the department's statutory responsibilities for examining, investigating, and regulating insurance premium finance companies each year.

The other regulatory methods considered by the department to accomplish the objectives of the proposal and to minimize any adverse impact on small and micro businesses include: (i) not adopting the proposed rule, (ii) adopting a different assessment for small and micro businesses, and (iii) exempting small and micro businesses from the assessment requirements.

Not adopting the proposed rule. Without adopting a rule the department will be unable to collect the necessary funds to cover costs of the examination function of the department. The purpose of conducting examinations is to monitor the activities and solvency of premium finance companies. Failure of the department to perform its examination functions could result in public harm if an insurance premium finance company ceased compliance with the Insurance Code or became insolvent and this was not detected because of the lack of regular examinations. Not adopting the rule would also result in premium finance companies being out of compliance with Insurance Code §651.006, which requires a licensed insurance premium finance company to pay an amount that covers the direct and indirect costs of an examination or investigation and a

proportionate share of the general administrative expense attributable to the regulation of licensed insurance premium finance companies. This option has been rejected.

Adopting a different assessment for small and micro businesses. The proposed assessment is already based on the most equitable methodology the department can develop. The department applies an assessment methodology that this year results in an assessment of \$250. This amount is equal to the minimum assessment required by previous versions of the rule extending back to its initial adoption in 1995. The department anticipates that a small or micro business that would be most susceptible to economic harm would be one that has a lower loan dollar volume. However, based on the proposed rule, a small or micro business would pay this minimum assessment, thereby reducing its risk of economic harm. This option has been rejected.

Exempting small and micro businesses from the assessment requirements. As previously noted, the current methodology used to develop the proposed amendments is already the most equitable that the department can develop. The department applies a methodology that contemplates companies, including those that are small or micro businesses, paying the minimum assessment that has been required under this section. However, if the assessment were completely eliminated for small or micro businesses, the department would need to completely revise its calculations to shift costs to other insurers and entities, which would result in a less balanced methodology. This option has been rejected.

TAKINGS IMPACT ASSESSMENT. The department has determined that no private real property interests are affected by this proposal and that this proposal does not restrict or limit an owner's right to property that would otherwise exist in the absence of government action, and so does not constitute a taking or require a takings impact assessment under Government Code §2007.043.

REQUEST FOR PUBLIC COMMENT. Submit any written comments on the proposal no later than 5:00 p.m., Central time, on December 15, 2014, by mail to the Texas Department of Insurance, Office of the Chief Clerk, Mail Code 113-2A, P.O. Box 149104, Austin, Texas

78714-9104; or by email to chiefclerk@tdi.texas.gov. Simultaneously submit an additional copy of the comments to Texas Department of Insurance, Joe Meyer, Assistant Chief Financial Officer, Financial Services, Mail Code 108-3A, P.O. Box 149104, Austin, Texas 78714-9104; or by email to joe.meyer@tdi.texas.gov. Separately submit any request for a public hearing to the Texas Department of Insurance, Office of the Chief Clerk, Mail Code 113-2A, P.O. Box 149104, Austin, Texas 78714-9104, before the close of the public comment period. If the department holds a hearing, the department will consider written and oral comments presented at the hearing.

STATUTORY AUTHORITY. The amendments are proposed under Insurance Code §§201.001(a)(1), (b), and (c); 651.003; 651.005(b); 651.006(a); and 36.001.

Insurance Code §201.001(a)(1) states that the Texas Department of Insurance operating account is an account in the general revenue fund, and that the account includes taxes and fees received by the commissioner or comptroller that are required by the Insurance Code to be deposited to the credit of the account. Section 201.001(b) states that the commissioner must administer money in the Texas Department of Insurance operating account and may spend money from the account in accordance with state law, rules adopted by the commissioner, and the General Appropriations Act. Section 201.001(c) states that money deposited to the credit of the Texas Department of Insurance operating account may be used for any purpose for which money in the account is authorized to be used by law.

Insurance Code §651.003 authorizes the commissioner to adopt and enforce rules necessary to administer Insurance Code Chapter 651.

Insurance Code §651.005(b) requires that the department deposit an assessment or fee associated with examination costs, as defined by §401.251, to the account described by §401.156(a).

Insurance Code §651.006(a) requires each insurance premium finance company licensed by the department to pay an amount imposed by the department to cover the direct and indirect costs of examinations and investigations and a proportionate share of general administrative expenses attributable to regulation of insurance premium finance companies.

Insurance Code §36.001 provides that the commissioner may adopt any rules necessary and appropriate to implement the powers and duties of the Texas Department of Insurance under the Insurance Code and other laws of this state.

CROSS REFERENCE TO STATUTE. The amendments to §25.88 affect Insurance Code §§201.001(a)(1), (b), and (c); 651.003; 651.005(b); and 651.006(a).

TEXT.

§25.88. General Administrative Expense Assessment. No later than April 1 of each year, [2014,] every [each] insurance premium finance company holding a license issued by the department under Insurance Code Chapter 651 must pay an assessment to cover the general administrative expenses attributable to the regulation of insurance premium finance companies. An insurance premium finance company must send payment to the Texas Department of Insurance at the address provided on the invoice [~~Financial Market Conduct, Mail Code 9999, 333 Guadalupe, P.O. Box 149104, Austin, Texas 78701-9104~~]. The assessment to cover general administrative expenses is \$250.

10. CERTIFICATION. This agency certifies that legal counsel has reviewed the proposal and found it to be within the agency's authority to adopt.

Issued at Austin, Texas, on October 28, 2014.



Sara Waitt, General Counsel
Texas Department of Insurance