

Approved: Jan. 27, 1994
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on January 24, 1994 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: William Wolff, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Dick Brock, Insurance Department
Larry Magill, KAIA

Others attending: See attached list

Hearing on HB 2634: Payment of insurance premiums by credit card

Dick Brock, Insurance Department, explained this bill which would permit the payment of insurance premiums with the use of a credit card (Attachment 1). Currently Kansas law does not permit this practice. Any charges associated with the credit card imposed on the insurance company, agent or broker would not be considered premium for purposes of the premium tax law or those statutes requiring all rates to be filed with the Insurance Department for approval. The use of the credit card would be at the option for insurance companies or brokers.

Larry Magill, Kansas Association of Insurance Agents, testified in opposition to the proposed bill (Attachment 2). If credit card payment of insurance premiums were allowed, competitive forces might drive insurance companies to offer credit card payment options at a cost of approximately 3.5% of the premium which is about 1/3 of their member's gross income. There is concern that members could not absorb the cost and stay in business. The ability of consumers to keep current if all insurance was put on a credit card with an 18% interest rate was questioned. Brokers could charge the credit card fee back to consumers which would only increase the cost of the insurance.

ACTION ON HB 2635: Life insurance conversion privileges

Inconsistencies in state statutes would be removed according to Bill Wolff in his review of the bill by adding "but" to Line 22 and striking "but" in Line 23.

Representative King moved to accept the amendments to the bill. The motion was seconded by Representative Neufeld. Motion carried.

Representative Neufeld moved to report the bill favorably as amended. Motion seconded by Representative Gilbert. Motion carried.

Representative Allen moved for the approval of the January 18 and 19 minutes. Motion seconded by Representative Helgerson. Motion carried.

The meeting adjourned at 4:25 p.m. The next meeting is scheduled for January 25, 1994.

GUEST LIST

COMMITTEE:

Harvey F. D.

DATE:

1-24-94

[illegible]

Testimony on
House Bill No. 2634
by
Dick Brock
Kansas Insurance Department

House Bill No. 2634 proposes to amend K.S.A. 40-282 by permitting the payment of insurance premiums with the use of a credit card. In this day and age people are used to conducting business with a credit card and the Insurance Department receives a number of inquiries primarily from agents or insurers concerning the payment of premiums in this manner. This proposal would simply give policyowners another method for paying their premiums.

Kansas law does not permit any agent, broker or insurance company to directly or indirectly provide any special incentive or inducement with respect to purchasing or maintaining insurance with them. A credit card like Visa, Mastercard, American Express, etc., would violate this provision because of the service charge or whatever that is deducted from the purchase price when the payment is remitted to the seller. The agent, insurer or whoever is accepting the credit card is effectively selling a product to a purchaser for 4%, 5% or whatever the charge is, less than other persons would pay in order to provide the convenience of a credit card. Enactment of House Bill No. 2634 would remove this obstacle by specifically permitting the use of credit cards.

Under the proposed amendment to K.S.A. 40-283, any charges associated with the credit card imposed on the insurance company, agent or broker would not be considered premium for purposes of the premium tax law or those statutes requiring all rates to be filed with the Insurance Department for approval.

Jan 24, 1994
House Financial
Institutions Insurance
Attachment 1

Testimony on HB 2634
Before the House Financial Institutions and Insurance Committee
By: Larry W. Magill, Jr., Executive Vice President
Kansas Association of Insurance Agents
January 24, 1994

Thank you, Mr. Chairman, and members of the committee for the opportunity to appear today in opposition to HB 2634. This proposal, requested by the Kansas Insurance Department, would allow insurance companies, agents and brokers to accept payment of insurance premiums through the use of a credit card. We are opposed to the concept because of the potential impact on both our members and consumers.

If credit card payment of insurance premiums were allowed, we are concerned that competitive forces might drive our members to offer credit card payment options at a cost of approximately 3.5% of the premium. This is about one-third of our members' gross income. With commission levels being constantly driven downward over time and now averaging 10-12% depending on the agents' mix of business, we are very concerned about our members' ability to absorb the cost and stay in business.

The only support for credit cards I'm aware of comes from non-standard auto insurers whose policyholders typically have problems paying for their coverage. This might keep more auto policies on the books, but at what cost to the consumer? If you paid for your auto, home, life, health and disability insurance with credit cards at possibly an 18% annual interest rate or even higher, what are the consumer's chances of staying current with the credit card?

If an agent had a brokers license, they could charge the credit card fee back to the consumer with a written contract. But then the

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consumer would be paying the credit card company fee of up to 5% plus the interest charges on the unpaid balances.

Most personal lines insurance companies currently offer some payment options for personal insurance and usually at very attractive interest rates. Most homeowners can pay their homeowners insurance through their escrow account on a monthly basis and even earn interest in some cases on the balance. Most companies for personal lines insurance only require the first payment up-front of a new policy with the remaining installments paid over time. Some credit cards even offer the option of using checks drawn against the credit card, which consumers could do now.

If the insurance company or agent pays the credit card company fee for consumers that choose that option, they would then be giving a discount to one group of consumers that are not given to those who pay cash. In effect, the people who use credit cards would be paying a lower insurance premium when you could argue that the reverse should be true. This would seem to be unfair discrimination.

We do not feel that a credit card option is critical or even advisable for insurance purchases. Therefore, we urge the committee not to report the bill favorably for passage.