

SUBJECT: Requiring insurers to refund unearned premiums within 15 business days

COMMITTEE: Insurance — favorable, without amendment

VOTE: 9 ayes — Smithee, Eiland, G. Bonnen, Creighton, Morrison, Muñoz, Sheets, Taylor, C. Turner

0 nays

WITNESSES: For — (*Registered, but did not testify:* Amanda Fredriksen, AARP; Lee Loftis, Independent Insurance Agents of Texas; Alex Winslow, Texas Watch)

Against — None

On — (*Registered, but did not testify:* Mark Worman, Texas Department of Insurance)

BACKGROUND: Insurance Code, sec. 558.002, requires an insurer to promptly refund the remaining portion of a premium reserve ("unearned premium") to the policyholder if an insurance policy is cancelled or terminated before the end of its term.

DIGEST: HB 1902 would require insurers to refund unearned premiums from cancelled or terminated residential property and personal automobile insurance policies within 15 business days of the effective cancellation date. This would apply to policies issued or renewed on or after September 1, 2013.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2013.

SUPPORTERS SAY: The Insurance Code does not specify what constitutes a "prompt" refund of an unearned premium, putting insurers and policyholders at odds. Since 2010, the Texas Department of Insurance (TDI) has received more than 400 complaints each year from policyholders about the length of time it takes to receive a refund. By setting a specific time frame, this bill would put insurers, policyholders, and the TDI on the same page. Insurers could

develop procedures to ensure compliance, policyholders would know when to expect their refunds, and the TDI could quickly determine if a violation occurred.

**OPPONENTS
SAY:**

HB 1902 would not allow enough time to handle unearned premium refunds from insolvent insurance companies. All insurance policies are effectively cancelled when an insurance company files for bankruptcy, resulting in numerous policies eligible for refunds of unearned premiums. Entities that handle claims from insolvent companies need more than 15 business days from the effective cancellation date to receive the necessary information and process the refunds.

NOTES:

The companion bill, SB 698 by Carona, passed the Senate by a vote of 31-0 on March 21.