

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

HOUSE COMMITTEE ON BUSINESS AND CONSUMER AFFAIRS SUBCOMMITTEE NO. 2

March 19, 1991
P.M.

Hearing Room F 3:00
Tapes 1 - 2

MEMBERS PRESENT: Rep. Beverly Stein, Chair Rep. Carolyn Oakley Rep.
Hedy Rijken Rep. John Schoon

STAFF PRESENT: Terry Connolly, Committee Administrator Annetta
Mullins, Committee Assistant

MEASURES CONSIDERED: HB 2212 PH HB 2007 PH

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TAPE 1, SIDE A

010 CHAIR STEIN calls the meeting to order at 3:07 p.m. and opens the public hearing on HB 200 7.

HB 2007 - REQUIRES RECORD CLUB OR BOOK CLUB TO ALLOW CUSTOMER TO VOID CONTRACT WITH RECORD CUB OR BOOK CLUB IF CUSTOMER PAYS 10 PERCENT OF AMOUNT DUE ON CONTRACT. Witnesses: David Crowell, Legislative Aide to Rep. Larry Campbell Ray Gribbling, DeHart and Darr Associates

The Preliminary Staff Measure Summary is hereby made a part of these minutes (EXHIBIT A).

008 DAVID CROWELL, Legislative Aide to Rep. Larry Campbell, submits and reads a prepared statement in support of HB 2007 (EXHIBIT B).

048 REP. OAKLEY: Is the \$181 the amount they would be paying for records if they fulfilled their contract?

MR. CROWELL: That is correct.

Issues discussed: >Timely response to notice from company.

084 REP. STEIN: Would you be interested in adding language that would require the book or record company to inform the customer in their contract they have this option?

090 MR. CROWELL: That is a good observation and the answer is "yes."

087 REP. SCHOON: The letter from the Attorney General's office (EXHIBIT C) did question the language in line 15 on page 1 and indicated we need clarification on what that means.

098 MR. CROWELL: I will be happy to propose language that would answer the Chair's question and clarify the Attorney General's question.

102 CHAIR STEIN: The letter indicates information on the complaints filed with the Department of Justice will be available and we can get the information circulated to the committee.

102 RAY GRIBLING, DeHart and Darr Associates, submits and reviews a prepared statement in opposition to HB 2007 (EXHIBIT D).

Issues discussed: >"Negative option plan" gives consumer choice to reject selection by returning card. >Federal Trade Commission rules. >Mr. Gribbling will provide sanctions under FTC rules. >Ability to refuse shipment and return merchandise. >Fulfillment of contract allows company to recoup difference to the company in providing the promotional selections. >FTC rules says the buyer must return introductory merchandise if the customer wishes to cancel. >Customers are expected to fulfill contract; customer may cancel and company sends a "Due on Contract" bill. >How to figure out the amount due under the contract.

349 CHAIR STEIN closes the public hearing on HB 2007 and opens the public hearing on HB 2212.

(Tape 1, Side A) HB 2212 - LIMITS CLAIM RESPONSIBILITY OF OREGON LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION TO OREGON RESIDENTS AND CERTAIN NONRESIDENTS. Witnesses: Jim Swensen, Administrator, Department of Insurance and Finance Charles Nicoloff, Supervisor of Company Section of Insurance Division Lewis Littlehales, Dept. of Insurance and Finance Rudy Miner, Chairman, Oregon Life and Health Insurance Guaranty Association Keith Burns, American Council of Life Insurance

356 MR. CONNOLLY reviews The Preliminary Staff Measure Summary (EXHIBIT E).

The Legislative Fiscal Analysis and Revenue Impact Analysis are hereby made a part of these minutes (EXHIBIT F).

378 JIM SWENSEN, Administrator, Department of Insurance and Finance, introduces Charles Nicoloff and Lewis Littlehales and reviews the provisions of the bill: HB 221 2 amends legislation which authorizes the Oregon Life and Health Guaranty Association. If an insurance company becomes insolvent, the policy holders are protected in Oregon by a guaranty association operating somewhat like the FDIC does for banks. There is one association for property and casualty insurance coverages; we are not amending that legislation. This statute affects the association for life and health insurance coverages. Mr. Nicoloff works closely with both associations.

The legislation makes three basic types of changes. It limits the coverage of the association to Oregon residents. The original concept on which our current statutes is based, initially enacted in 1975, followed a National Association of Insurance Commissioners (NAIC) model which was based on the concept that if a domestic insurance company, a company domiciled in Oregon or other states, were to become insolvent that state's guarantee association would cover the residents of states of the country. The concept was well conceived but didn't work in practice because other states didn't play by the same rules. We developed a guarantee association which provided extra state coverage. However, some states have not adopted guarantee associations. Some of the states that adopted coverages provided their associations cover only residents of their state. The NAIC has now changed the basic model so it covers only the residents of the state. HB 221 2 is based on that new model. It protects Oregonians and limits the exposure of Oregon's

General Fund to providing protection only for Oregonians.

The second change is we are expanding coverage of the guaranty association to cover certain unallocated annuity contracts which are provided to governmental employees.

The third change is updating certain features of our present statutes to correspond to improvements that have been made in the NAIC model.

TAPE 2, SIDE A

020 CHARLES NICOLOFF, Supervisor of the Company Section of the Insurance Division, submits and paraphrases a prepared statement in support of HB 2212 (EXHIBIT G).

060 MR. NICOLOFF reviews the purpose of each section of HB 2212:
>Section 1 expands the definition of insolvent insurer and protects the individual policy holder from something they haven't done. >Section 2 clarifies the purpose of the fund. >Section 3 specifies the type of contracts covered as well as the residency requirements for coverage and includes the limited residency coverage. It also modifies the type of unallocated annuity contracts and limits those coverages. >Section 2 (3) modifies and expands the coverage and picks up certain maximums not covered by the association. In the event an insurance company becomes insolvent and has issued annuities that have paid unusually high rates of interest, lines 13 - 26 on page 3 put a cap on the amount of interest the guaranty fund will be responsible for. Lines 23 through 31 enumerate those programs of employers that are self-funded or uninsured. Self-funded plans are not covered by the guaranty fund. >Section 4 deletes language that would no longer be needed because of the change to residency. (6) expands the right of the guaranty association to intervene in matters affecting it in other jurisdictions (states). (8) changes the current limits for policies and sets limit of \$5 million total as opposed to \$300,000 per person. >Section 5 changes the method of assessing member insurers to try to make it more workable. (9) would allow the association to charge its members interest if they are late paying the assessments.

Issues discussed: >Under the bill, if a domestic insurer becomes insolvent we will cover residents only with specified limitations. If you are a resident of another state you are expected to look to the guaranty association of that state. >If a foreign insurer becomes insolvent and you are an Oregon resident, our fund will cover you. >If you are an Oregon resident, you will be covered regardless of where the company is domiciled. >Limitations for coverage of non-residents is in Section 3, page 2, lines 27 - 38. >This is a department bill and has the approval of the Oregon Life and Health Guaranty Association. The department believes it is important to limit the exposure to coverage.

261 LEWIS LITTLEHALES: Introduces and reviews proposed amendments (EXHIBIT H). The bill establishes protection for government retirement plans covered by an unallocated annuity contract. The amendments clarify that all other unallocated annuity contracts are not covered. The amendments on page 6 provide a similar clarification and clarify the overall ceiling of \$300,000 per individual with a \$5 million cap for all persons covered under one or more group of policies by a single employer. The amendments on page 7 were requested by the Oregon Life and Health Guaranty Association and clarify that the assessment shall be made only once and if the insurer cannot pay because of the two percent overall cap per year, the assessment will continue to be paid in subsequent years. The provision on page 10 clarifies that the amendments to the sections will apply to companies placed under an order of liquidation, rehabilitation or conversion on or after the effective date.

301 RUDY MINER, Chairman, Oregon Life and Health Insurance Guaranty Association: My purpose is to enter into the record that the association supports the amendments proposed by the department.

338 KEITH BURNS, American Council of Life Insurance: We are a trade association of the insurance companies that market somewhere between 97 and 99 percent of life insurance sold in the United States. We support this bill.

665 CHAIR STEIN: Is the assessment based on the amount of payout per year?

371 MR. NICOLOFF: It is on an as-needed basis. There isn't an assessment until there is an insolvency. If there is an insolvency and \$1 million in unpaid claims, they will assess \$1 million and bill each insurance company based on their share of premiums written in the state.

413 CHAIR STEIN closes the public hearing on HB 2212 and declares the meeting adjourned at 4:02 p.m.

Respectfully submitted, Reviewed by,

Annetta Mullins Terry Connolly Assistant

Administrator

EXHIBIT SUMMARY

A -HB 2007, Preliminary Staff Measure Summary, staff B -HB 2007, prepared statement, David Crowell C -HB 2007, letter, Tim Wood, Attorney General's Office D -HB 2007, prepared statement, Ray Gribbling E -HB 2212, Preliminary Staff Measure Summary, staff F -HB 2212, Legislative Fiscal Analysis and Revenue Impact Analysis, staff G -HB 2212, prepared statement, Charles Nicoloff H -HB 2212, proposed amendments, Lewis Littlehales