

Representative James A. Dunnigan proposes the following substitute bill:

INSURANCE LAW REVISIONS

2005 GENERAL SESSION

STATE OF UTAH

Sponsor: James A. Dunnigan

LONG TITLE

General Description:

This bill modifies various provisions of the Insurance Code related to property and casualty insurance.

Highlighted Provisions:

This bill:

- ▶ corrects citations;
- ▶ clarifies the monetary considerations for a surplus lines insurance policy that are subject to the surplus lines insurance tax;
- ▶ eliminates the requirement that providers of service contracts pay a fee when they file certain notices with the department;
- ▶ addresses first party medical coverages for motor vehicle insurance;
- ▶ addresses specific requirements for title insurance producers;
- ▶ addresses a title insurance producer performing the functions of escrow;
- ▶ addresses a title insurance producer business; and
- ▶ makes technical changes.

Monies Appropriated in this Bill:

None

Other Special Clauses:

None



26 **Utah Code Sections Affected:**

27 AMENDS:

28 **31A-3-101**, as last amended by Chapter 169, Laws of Utah 1997

29 **31A-3-301**, as last amended by Chapter 167, Laws of Utah 1987

30 **31A-6a-103**, as last amended by Chapter 298, Laws of Utah 2003

31 **31A-22-302**, as last amended by Chapters 76 and 218, Laws of Utah 2003

32 **31A-23a-203**, as last amended by Chapter 173, Laws of Utah 2004

33 **31A-23a-204**, as renumbered and amended by Chapter 298, Laws of Utah 2003

34 **31A-23a-406**, as last amended by Chapter 117, Laws of Utah 2004



36 *Be it enacted by the Legislature of the state of Utah:*

37 Section 1. Section **31A-3-101** is amended to read:

38 **31A-3-101. General finance provisions.**

39 (1) The department's expenses shall be paid from the General Fund. Department
40 expenditures shall conform to the Legislature's appropriation adopted under Title 63, Chapter
41 38, Budgetary Procedures Act.

42 (2) Except as provided in [~~Sections 31A-3-301 and~~] Section 31A-2-206, or as
43 otherwise specifically provided in this title, all monies collected by the commissioner shall be
44 deposited without deduction in the General Fund.

45 Section 2. Section **31A-3-301** is amended to read:

46 **31A-3-301. Tax imposed on surplus lines insurance transactions.**

47 [~~Insurance transactions~~] (1) (a) An insurance transaction under Section 31A-15-103
48 [~~are~~] is subject to a tax of 4-1/4% of gross premiums, less 4-1/4% of return premiums paid to
49 insureds by reason of policy cancellations or premium reductions. [~~This~~]

50 (b) The gross premium for a surplus lines insurance transaction means the monetary
51 consideration for an insurance policy including all fees charged to the insured, however
52 designated.

53 (2) The tax imposed by this section does not apply to:

54 (a) ocean marine insurance[;];

55 (b) insurance premiums paid by institutions within the state system of higher education
56 as specified in Section 53B-1-102[;]; or

57 (c) annuities.

58 (3) This tax shall be deposited in the General Fund.

59 Section 3. Section **31A-6a-103** is amended to read:

60 **31A-6a-103. Requirements for doing business.**

61 (1) [~~Service contracts~~] A service contract may not be issued, sold, or offered for sale in
62 this state unless the service contract is insured under a service contract reimbursement
63 insurance policy issued by:

64 (a) an insurer authorized to do business in this state~~];~~ or

65 (b) a recognized surplus lines carrier.

66 (2) (a) [~~Service contracts~~] A service contract may not be issued, sold, or offered for
67 sale unless a true and correct copy of the service contract and the provider's reimbursement
68 insurance policy have been filed with the commissioner. [~~Copies of contracts and policies~~] A
69 copy of a contract and policy must be filed no less than 30 days prior to the issuance, sale
70 offering for sale, or use of the service contract or reimbursement insurance policy in this state.

71 (b) Each modification of the terms of any service contract or reimbursement insurance
72 policy must also be filed 30 days prior to its use in this state. [~~Each filing must be~~
73 ~~accompanied by a filing fee as required under Subsection 31A-3-103, or the filing shall be~~
74 ~~rejected.~~]

75 (c) Persons complying with this chapter are not required to comply with:

76 (i) Subsections 31A-21-201(1) and 31A-23a-402(3); or

77 (ii) Chapter 19a, Utah Rate Regulation Act.

78 (3) (a) Premiums collected on service contracts are not subject to premium taxes.

79 (b) Premiums collected by issuers of reimbursement insurance policies are subject to
80 premium taxes.

81 (4) [~~Persons~~] A person marketing, selling, or offering to sell service contracts for
82 service contract providers that [~~comply~~] complies with this chapter [~~are~~] is exempt from the
83 licensing requirements of this title.

84 (5) Service contract providers complying with this chapter are not required to comply
85 with:

86 (a) Chapter 5, Domestic Stock and Mutual Insurance Corporations;

87 (b) Chapter 7, Nonprofit Health Service Insurance Corporations;

- 88 (c) Chapter 8, Health Maintenance Organizations and Limited Health Plans;
- 89 (d) Chapter 9, Insurance Fraternal;
- 90 (e) Chapter 10, Annuities;
- 91 (f) Chapter 11, Motor Clubs;
- 92 (g) Chapter 12, State Risk Management Fund;
- 93 (h) Chapter 13, Employee Welfare Funds and Plans;
- 94 (i) Chapter 14, Foreign Insurers;
- 95 (j) Chapter 19a, Utah Rate Regulation Act;
- 96 (k) Chapter 25, Third Party Administrators; and
- 97 (l) Chapter 28, Guaranty Associations.

98 Section 4. Section 31A-22-302 is amended to read:

99 **31A-22-302. Required components of motor vehicle insurance --**

100 **Exceptions.**

101 (1) Every policy of insurance or combination of policies purchased to satisfy the
102 owner's or operator's security requirement of Section 41-12a-301 shall include:

103 (a) motor vehicle liability coverage under Sections 31A-22-303 and 31A-22-304;

104 (b) uninsured motorist coverage under Section 31A-22-305, unless affirmatively
105 waived under Subsection 31A-22-305(4); ~~and~~

106 (c) underinsured motorist coverage under Section 31A-22-305, unless affirmatively
107 waived under Subsection 31A-22-305(9)~~[-]; and~~

108 (d) except as provided in Subsection (2) and subject to Subsection (3), personal injury
109 protection under Sections 31A-22-306 through 31A-22-309.

110 (2) ~~Every~~ A policy of insurance or combination of policies, purchased to satisfy the
111 owner's or operator's security requirement of Section 41-12a-301~~[-; except]~~ for ~~[motorcycles,~~
112 ~~trailers, and semitrailers, shall also include]~~ a motorcycle, trailer, or semitrailer is not required
113 to have personal injury protection under Sections 31A-22-306 through 31A-22-309.

114 (3) (a) First party medical coverages may be offered or included in policies issued to
115 motorcycle, trailer, and semitrailer owners or operators.

116 (b) Owners and operators of motorcycles, trailers, and semitrailers are not covered by
117 personal injury protection coverages in connection with injuries incurred while operating any
118 of these vehicles.

119 (4) First party medical coverage expenses shall be governed by the relative value study
 120 provisions under Subsections 31A-22-307(2) and (3).

121 Section 5. Section **31A-23a-203** is amended to read:

122 **31A-23a-203. Training period requirements.**

123 (1) A producer is eligible to add the surplus lines of authority to the person's producer's
 124 license if the producer:

125 (a) has passed the applicable examination;

126 (b) has been a producer with property and casualty lines of authority for at least three
 127 years during the four years immediately preceding the date of application; and

128 (c) has paid the applicable fee under Section 31A-3-103.

129 (2) A person is eligible to become a consultant only if the person has acted in a
 130 capacity that would provide the person with preparation to act as an insurance consultant for a
 131 period aggregating not less than three years during the four years immediately preceding the
 132 date of application.

133 ~~[(3) A title producer is eligible to become a title agency only if the title producer has
 134 been licensed as a title producer in the search and escrow categories for at least three years
 135 during the four years immediately preceding the date of application.]~~

136 ~~[(4)]~~ (3) The training periods required under this section apply only to natural persons
 137 applying for licenses under this chapter.

138 Section 6. Section **31A-23a-204** is amended to read:

139 **31A-23a-204. Special requirements for title insurance producers.**

140 Title insurance producers shall be licensed in accordance with this chapter, with the
 141 additional requirements listed in this section.

142 ~~§→ [(1) Every title insurance agency newly licensed, merged, or acquired after July 1, 2005,
 143 shall be owned or managed by a full-time title producer licensed with search and escrow lines
 144 of authority for at least three of the four years immediately preceding the date of application.] ←§~~

145 ~~[(1)]~~ ~~§→~~ ~~[(2)]~~ (1) ~~←§~~ (a) Every title insurance agency or producer appointed by an insurer
 shall

146 maintain:

147 (i) a fidelity bond;

148 (ii) a professional liability insurance policy; or

149 (iii) a financial protection:

150 (A) equivalent to that described in Subsection [~~(1)~~] ~~§~~→ [~~(2)~~] (1) ←~~§~~ (a)(i) or (ii); and

151 (B) that the commissioner considers adequate.

152 (b) The bond or insurance required by this Subsection [~~(1)~~] ~~§~~→ [~~(2)~~] (1) ←~~§~~ :

153 (i) shall be supplied under a contract approved by the commissioner to provide
154 protection against the improper performance of any service in conjunction with the issuance of
155 a contract or policy of title insurance; and

156 (ii) be in a face amount no less than \$50,000.

157 (c) The commissioner may by rule exempt title insurance producers from the
158 requirements of this Subsection [~~(1)~~] ~~§~~→ [~~(2)~~] (1) ←~~§~~ upon a finding that, and only so long as, the
158a required

159 policy or bond is generally unavailable at reasonable rates.

160 [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ (a) (i) Every title insurance agency or producer appointed by an
160a insurer shall

161 maintain a reserve fund.

162 (ii) The reserve fund required by this Subsection [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ shall be:

163 (A) (I) composed of assets approved by the commissioner;

164 (II) maintained as a separate trust account; and

165 (III) charged as a reserve liability of the title insurance producer in determining the
166 producer's financial condition; and

167 (B) accumulated by segregating 1% of all gross income received from the title
168 insurance business.

169 (iii) The reserve fund shall contain the accumulated assets for the immediately
170 preceding ten years as defined in Subsection [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ (a)(ii).

171 (iv) That portion of the assets held in the reserve fund over ten years may be:

172 (A) withdrawn from the reserve fund; and

173 (B) restored to the income of the title insurance producer.

174 (v) The title insurance producer may withdraw interest from the reserve fund related to
175 the principal amount as it accrues.

176 (b) (i) A disbursement may not be made from the reserve fund except as provided in
177 Subsection [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ (a) unless the title insurance producer ceases doing business as a
result of:

178 (A) sale of assets;

179 (B) merger of the producer with another producer;

180 (C) termination of the producer's license;

181 (D) insolvency; or

182 (E) any cessation of business by the producer.

183 (ii) Any disbursements from the reserve fund may be made only to settle claims arising
184 from the improper performance of the title insurance producer in providing services defined in
185 Section 31A-23a-406.

186 (iii) The commissioner shall be notified ten days before any disbursements from the
187 reserve fund.

188 (iv) The notice required by this Subsection [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ (b) shall contain:

189 (A) the amount of claim;

190 (B) the nature of the claim; and

191 (C) the name of the payee.

192 (c) (i) The reserve fund shall be maintained by the title insurance producer or the title
193 insurance producer's representative for a period of two years after the producer ceases doing
194 business.

195 (ii) Any assets remaining in the reserve fund at the end of the two years specified in
196 Subsection [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ (c)(i) may be withdrawn and restored to the former producer.

197 [~~(3)~~] ~~§~~→ [~~(4)~~] (3) ←~~§~~ Any examination for licensure shall include questions regarding the search
198 and examination of title to real property.

199 [~~(4)~~] ~~§~~→ [~~(5)~~] (4) ←~~§~~ A title insurance producer may not perform the functions of escrow
199a unless the
200 producer has been examined on the fiduciary duties and procedures involved in those
201 functions.

202 [~~(5)~~] ~~§~~→ [~~(6)~~] (5) ←~~§~~ The commissioner shall adopt rules outlining an examination that
202a will satisfy
203 this section.

204 [~~(6)~~] ~~§~~→ [~~(7)~~] (6) ←~~§~~ A license may be issued to a title insurance producer who has
204a qualified:

205 (a) to perform only searches and examinations of title as specified in Subsection [~~(3)~~]

206 ~~§~~→ [~~(4)~~] (3) ←~~§~~ ;

207 (b) to handle only escrow arrangements as specified in Subsection [~~(4)~~] ~~§~~→ [~~(5)~~] (4) ←~~§~~ ; or

208 (c) to act as a title marketing representative.

209 [~~(7)~~] ~~§~~→ [~~(8)~~] (7) ←~~§~~ A person licensed to practice law in Utah is exempt from the
209a requirements of

210 Subsections [~~(1)~~] ~~§~~→ [~~(2)~~] (1) ←~~§~~ and [~~(2)~~] ~~§~~→ [~~(3)~~] (2) ←~~§~~ if that person issues 12 or less
210a policies in any 12-month
211 period.

212 [~~(8)~~] ~~§~~→ [~~(9)~~] (8) ←~~§~~ A person licensed to practice law in Utah, whether exempt under
212a Subsection

213 [~~(7)~~] ~~§~~→ [~~(8)~~] (7) ←~~§~~ or not, shall maintain a trust account separate from a law firm trust account
213a for all title

214 and real estate escrow transactions.

215 Section 7. Section **31A-23a-406** is amended to read:

216 **31A-23a-406. Title insurance producer's business.**

217 (1) A title insurance producer may do escrow involving real property transactions if all
218 of the following exist:

219 (a) the title insurance producer is licensed with:

220 (i) the title line of authority; and

221 (ii) the escrow subline of authority;

222 (b) the title insurance producer is appointed by a title insurer authorized to do business
223 in the state;

224 (c) one or more of the following is to be issued as part of the transaction:

225 (i) an owner's policy of title insurance; or

226 (ii) a lender's policy of title insurance;

227 (d) (i) all funds deposited with the title insurance producer in connection with any
228 escrow:

229 (A) are deposited:

230 (I) in a federally insured financial institution; and

231 (II) in a trust account that is separate from all other trust account funds that are not
232 related to real estate transactions; and

233 (B) are the property of the persons entitled to them under the provisions of the escrow;

234 and

235 (ii) are segregated escrow by escrow in the records of the title insurance producer;

236 (e) earnings on funds held in escrow may be paid out of the escrow account to any
237 person in accordance with the conditions of the escrow; and

238 (f) the escrow does not require the title insurance producer to hold:

239 (i) construction funds; or

240 (ii) funds held for exchange under Section 1031, Internal Revenue Code.

241 (2) Notwithstanding Subsection (1), a title insurance producer may engage in the
242 escrow business if:

- 243 (a) the escrow involves:
- 244 (i) a mobile home;
- 245 (ii) a grazing right;
- 246 (iii) a water right; or
- 247 (iv) other personal property authorized by the commissioner; and
- 248 (b) the title insurance producer complies with all the requirements of this section
- 249 except for the requirement of Subsection (1)(c).
- 250 (3) Funds held in escrow:
- 251 (a) are not subject to any debts of the title insurance producer;
- 252 (b) may only be used to fulfill the terms of the individual escrow under which the funds
- 253 were accepted; and
- 254 (c) may not be used until all conditions of the escrow have been met.
- 255 (4) Assets or property other than escrow funds received by a title insurance producer in
- 256 accordance with an escrow shall be maintained in a manner that will:
- 257 (a) reasonably preserve and protect the asset or property from loss, theft, or damages;
- 258 and
- 259 (b) otherwise comply with all general duties and responsibilities of a fiduciary or
- 260 bailee.
- 261 (5) (a) A check from the trust account described in Subsection (1)(d) may not be
- 262 drawn, executed, or dated, or funds otherwise disbursed unless the segregated escrow account
- 263 from which funds are to be disbursed contains a sufficient credit balance consisting of collected
- 264 or cleared funds at the time the check is drawn, executed, or dated, or funds are otherwise
- 265 disbursed.
- 266 (b) As used in this Subsection (5), funds are considered to be "collected or cleared,"
- 267 and may be disbursed as follows:
- 268 (i) cash may be disbursed on the same day the cash is deposited;
- 269 (ii) a wire transfer may be disbursed on the same day the wire transfer is deposited;
- 270 (iii) the following may be disbursed on the day following the date of deposit:
- 271 (A) a cashier's check;
- 272 (B) a certified check;
- 273 (C) a teller's check;

274 (D) a U.S. Postal Service money order; and
275 (E) a check drawn on a Federal Reserve Bank or Federal Home Loan Bank; and
276 (iv) any other check or deposit may be disbursed:
277 (A) within the time limits provided under the Expedited Funds Availability Act, 12
278 U.S.C. Section 4001 et seq., as amended, and related regulations of the Federal Reserve
279 System; or
280 (B) upon written notification from the financial institution to which the funds have
281 been deposited, that final settlement has occurred on the deposited item.
282 (c) Subject to Subsections (5)(a) and (b), ~~[before the disbursement of funds, any~~
283 ~~changes to any settlement statement made after the final closing documents are executed shall~~
284 ~~be authorized or acknowledged by signature of the party or parties affected by the change]~~ any
285 material change to a settlement statement made after the final closing documents are executed
286 must be authorized or acknowledged by date and signature on each page of the settlement
287 statement by the one or more persons affected by the change before disbursement of funds.
288 (6) The title insurance producer shall maintain records of all receipts and
289 disbursements of escrow funds.
290 (7) The title insurance producer shall comply with:
291 (a) Section 31A-23a-409; ~~[and]~~
292 (b) Title 46, Chapter 1, Notaries Public Reform Act; and
293 ~~[(b)]~~ (c) any rules adopted by the commissioner in accordance with Title 63, Chapter
294 46a, Utah Administrative Rulemaking Act, that govern escrows.

Fiscal Note
Bill Number HB0200S01

Insurance Law Revisions

02-Feb-05

5:08 PM

State Impact

No fiscal impact.

Individual and Business Impact

Impacts to business should be slight. No fiscal impact on individuals.

Office of the Legislative Fiscal Analyst