

ARIZONA HOUSE OF REPRESENTATIVES  
Fifty-first Legislature – First Regular Session

**HOUSE INSURANCE MODERNIZATION STUDY COMMITTEE**

Minutes of Interim Meeting  
Thursday, October 24, 2013  
HHR 4 -- 1:30 p.m.

Chairman David Livingston called the meeting to order at 1:37 p.m. and attendance was noted by the secretary.

**Members Present**

Representative David Livingston, Chairman  
Representative Mark Cardenas

Representative Paul Boyer  
Representative Justin Olson

**Members Absent**

None

Chairman Livingston introduced the Committee Members.

**EXPLANATION OF COMMITTEE CHARGE**

Jeanine Jones, House Majority Research Analyst, explained that the purpose of the Committee is to make recommendations designed to promote the growth of the insurance industry and insurance jobs in the State of Arizona and make recommendations relating to the elimination of insurance laws that are administratively burdensome and not necessary to the public interest with focus on:

- Premium tax reduction
- Title 20 regulation reduction
- Travel insurance regulation reduction
- Investment fund and insurance tax credit

Chairman Livingston provided opening remarks and gave a brief background on his 20 years as a financial advisor and lifetime member of the Million Dollar Round Table (MDRT). He explained the integral role the insurance industry plays to the financial industry and the consumer.

## **PRESENTATIONS**

### **Premium Tax Reduction Bill**

J. Michael Low, Attorney, Low & Cohen, PLLC, representing Prudential Financial, Inc., introduced fellow businessmen who accompanied him and provided Members with a packet detailing a proposed state premium tax rate reduction (Attachment 1). He stated that the industry is requesting a rate reduction from the current 2 percent to 1.7 percent over the next three years. The 2 percent insurance premium tax rate is well above the rates imposed by states attracting insurance company jobs and investments, for example Iowa and Nebraska offer a 1 percent rate, making them more competitive. He said that reducing the rate is both logical and astute and will allow Arizona to become more business friendly.

Chris Chandler, Vice President of Government Affairs, Prudential Financial, Inc., provided history on the state premium tax rate and reiterated the request for a rate reduction over the next three years. He advised the Committee of the disparities between the corporate tax and the premium tax rates, explaining that business corporate income tax is based on a net income tax derived from earnings while insurance companies pay a gross premium tax regardless of profits. In Arizona, the corporate tax rate is 6.9 percent and the premium tax rate is equivalent to 14.66 percent. Mr. Chandler said that an insurance premium tax rate reduction will assist in closing the gap between insurance companies and their non-insurance competitors that pay the far less burdensome corporate net income taxes.

Chairman Livingston questioned the impact of previous rate changes to the state revenue. Mr. Chandler said that up until the last recession, the rate of revenue to the state from the insurance premium tax had grown in general; this proposal will simply slow the rate of increase.

Mr. Olson questioned the reason insurance companies pay a premium tax rather than a corporate tax. Mr. Chandler related that insurance companies, which are state regulated with a constitutional issue, were taxed long before the existence of the corporate income tax. Mr. Olson asked if the insurance industry also pays federal income taxes. Mr. Chandler answered in the affirmative.

Mr. Chandler said that the rate of tax is important to the general public because it is built into the cost of insurance. By lowering the premium tax rate, the premium rate will be cheaper.

Mr. Boyer inquired the reason for not asking for a larger reduction in the premium tax. Mr. Chandler remarked that the industry is focused on a rate reduction that will not severely affect the State of Arizona.

In response to additional questions, Mr. Chandler compared the differences in state premium tax rates and explained the effect of the retaliatory tax.

Chairman Livingston commented that having lower premium tax rates will provide an incentive for insurance companies to bring new business to the state. Mr. Chandler concurred.

Mr. Cardenas asked how the reduced rate will affect the General Fund (GF). Mr. Chandler pointed out that the information packet (Attachment 1) contains the annual figures which Mr. Montellione will review next.

Chairman Livingston advised the Committee of previous attempts to lower the insurance premium tax rate. He said that, in order for the Governor to support the legislation, a minimal rate decrease is necessary.

Mr. Low returned to the podium and introduced Bob Montellione.

Robert “Bob” Montellione, Vice President of State Tax Policy, Prudential Financial, Inc., reviewed Attachment 1 and addressed the following areas:

- How Arizona’s insurance premium tax rate compares to the national rate
- How the 2 percent premium tax converts to a corporate net income tax rate
- How Arizona’s revenues will be impacted

He informed Members that since the mid-1980s, 18 states have reduced their insurance premium tax rates below 2 percent; the current national average is 1.85 percent. Mr. Montellione reiterated that a premium tax rate reduction will close the gap between Arizona and states with more competitive rates and also close the gap between insurance companies and their non-insurance competitors that pay the less burdensome corporate net income taxes. He said that with the reduction of the corporate net income tax rate over the next five years, the disparity between insurance companies and non-insurance competitors greatly increases. In Arizona, the corporate tax rate is 6.9 percent, with a projected reduction to 4.9 percent, and the premium tax rate is equivalent to 14.66 percent.

Chairman Livingston explained that previous legislation reduced the corporate net income tax rate but overlooked insurance companies. He said that reducing the premium tax rate will aid in lessening the disparity between insurance companies and non-insurance competitors. Insurance companies are at a disadvantage in comparison to banking and other institutions.

In response to Mr. Boyer’s question, Mr. Montellione explained how the 2 percent insurance premium tax converts to a 14.66 percent net income tax rate.

Returning to Attachment 1, Mr. Montellione outlined the state fiscal impact of various premium tax rate reductions, explained the offset of the retaliatory tax on each reduction and pointed out the 2013 premium tax quick reference guide.

Chairman Livingston thanked Mr. Montellione for flying in from New Jersey to discuss the insurance premium tax.

### **Travel Insurance Regulation Reduction Bill**

J. Michael Low, Attorney, Low & Cohen, PLLC, representing American International Group, Inc. (AIG), provided a handout entitled *HB2560 Travel insurance producer licensing* (Attachment 2). He stated that HB2560 was sponsored by Representative John Allen in the

Fifty-first Legislature, First Regular Session, passed out of the House of Representatives by a 55-0-5 vote and the Senate Finance Committee with a 7-0 vote but was held in the Senate. Mr. Low said there are approximately 311 small travel agents doing business in the state. Limitations under current law are restrictive as to what can be done. This measure establishes a limited lines license for travel agents and is intended to create a simple system for the sale of travel insurance. Travel agents do not have to be licensed and will operate under the supervision of a limited lines travel insurance producer. Mr. Low stated that both the National Association of Insurance Commissioners (NAIC) and the National Conference of Insurance Legislators (NCOIL) endorse the measure which places the NAIC standards into legislative format.

In response to a question, Mr. Low provided an example of how consumers purchase travel insurance. The insurance company issues the consumer a certificate of insurance that can cover items such as the loss of baggage, overseas travel, cruise packages, etc.

Chairman Livingston asked if the person selling the travel insurance is required to have an insurance license. Mr. Low answered in the affirmative; however, with this measure the requirement will be removed and the person selling the travel insurance will work under the supervision of a licensed agent.

Chairman Livingston commented that the individuals selling the travel insurance are selling an addition to a product and are not insurance agents. This type of insurance is sold by individuals working at a rental car business or travel agency. A licensed insurance broker will be responsible for the individuals and their training.

Mr. Boyer inquired if rental car businesses have licensed insurance brokers. Mr. Low explained that the rental car businesses have a limited lines license specifically for rental cars. This measure is similar to the rental car industry model.

Jim Norton, Director, R & R Partners and President, Arizona Chamber of Commerce and Industry (Chamber), spoke in support of the premium tax reduction measure and provided background on the Chamber's tax agenda.

Mr. Olson announced the following individuals were present in support but did not speak:  
Wendy Briggs, Lobbyist, American Insurance Association

Without objection, the meeting adjourned at 2:31 p.m.

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Abby Selvey, Committee Secretary  
November 13, 2013

(Original minutes, attachments and audio on file in the Office of the Chief Clerk; video archives available at <http://www.azleg.gov>)