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**TESTIMONY OF
THE
MARYLAND INSURANCE ADMINISTRATION
BEFORE THE
SENATE FINANCE COMMITTEE**

FEBRUARY 12, 2020

**SENATE BILL 345 – HOMEOWNER’S INSURANCE – WEATHER-RELATED CLAIMS AND NOTICE
OF CANCELLATION OR NON-RENEWAL**

LETTER OF INFORMATION

Thank you for the opportunity to provide relevant information regarding Senate Bill 345. This bill will eliminate the existing ability of a homeowners insurer to not renew a policy due to three or more weather-related claims in the past three years. This specific reason for non-renewal has been authorized in statute since 1998. *See Section 27-501(i)(1) of the Insurance Article.* The bill also seeks to codify, under Section 27-602 of the Insurance Article, the already available right of a homeowner to protest an insurer’s non-renewal of their policy for any reason other than non-payment of premium through the use of a newly required form to be “adopted by the Commissioner.” Please note that Maryland insurance law has never prohibited a homeowners insurer from considering the weather-related claims history of a specific property as a new business eligibility standard.

In all lines of property and casualty insurance, insurers establish eligibility requirements for new and renewal business that are reasonably related to the insurer’s business and economic purposes. These standards may not be arbitrary, capricious or unfairly discriminatory. *See Section 27-501(a) of the Insurance Article.* Standards for both claim severity (the cost of losses) and claim frequency (the number of losses over time) are reasonably related to an insurer’s business and economic purposes and are important underwriting tools.

Prior to 1998, Maryland insurance law made no distinction between homeowners insurance claims that were related to weather and those that were not. Thus, if an insurer’s standards called for non-renewal after the third claim, the insurer could non-renew the policy even if one or two of the three claims was due to weather. The addition of Section 27-501 (i) (1) in 1998 prohibited

counting weather-related claims against a policy for renewal eligibility purposes unless there were three or more such claims in the prior three years.

Instances of non-renewal for three or more weather-related claims in the past three years appear to be uncommon. The Maryland Insurance Administration's ("MIA") Property & Casualty Consumer Complaints unit received 110 consumer complaints in calendar year 2019 protesting an insurer's decision to non-renew a homeowners policy. Only five of these were due to weather-related claims. A homeowner whose policy has been non-renewed due to the frequency of weather-related claims would most certainly be forced to find replacement coverage in the surplus lines or residual market. Policy counts in the residual market have been dropping steadily over the past 5 years; and, there has not been a significant uptick in homeowners coverage written in the surplus lines market. The MIA was only able to identify that Texas has a prohibition of this sort; and, that New Jersey prohibits non-renewal due solely to weather-related claims.

The proposed changes to Section 27-602 of the Insurance Article contained in Senate Bill 345 will require an insurer to send a formal right to protest notice for all underwriting non-renewal decisions, not just those that are due to weather-related claim frequency, in a similar fashion as is required in Section 27-613 for private passenger automobile ("PPA") insurance. This new requirement will involve a system programming and policy administration expense for insurers that will be passed on to consumers. . We note that homeowners complainants already receive the same policy hold-in-effect protection presently as PPA complainants receive.

The passage of Senate Bill 345 may have the unintended consequences of: 1) exerting upward pressure on homeowners insurance rates; and, 2) the tightening of underwriting eligibility standards in the market with respect to both weather and non-weather claims across the state (particularly in the coastal and western regions).

Finally Senate Bill 345 will require all homeowner insurers that presently utilize weather related claims in the past three years as a factor to submit a new rate / rule filing to the MIA. The MIA will be required to review these filings in advance of the effective date of the legislation. Additionally the MIA will be required to create a new form for homeowner insurance complaints. Thus, the MIA requests an amendment to delay the effective date from October 1, 2020 until October 1, 2021. This will allow insurers sufficient time to perform the necessary due diligence and submit their filings in the normal course of business; and, it will allow the MIA to complete the necessary thorough filing reviews without creating a backlog in the review of filings for other lines of business. This requested amendment should not be misconstrued as the MIA taking a position on Senate Bill 345.