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Senate Bill 345
Homeowner's Insurance – Weather-Related Claims
and Notice of Cancellation or Nonrenewal

Senate Finance Committee – Hearing: February 12, 2020

SUPPORT

The People's Insurance Counsel Division ("PICD") supports Senate Bill 345 as it is written. This bill will prohibit an insurer from cancelling or refusing to renew a homeowner's insurance policy based on the claims history of the insured for weather-related claims. Current Maryland law allows an insurer to cancel or refuse to renew a homeowner's insurance policy if there are three or more weather-related claims within a three-year period.

Insurance companies use many different factors to rate and price a homeowner's insurance policy: age of the home, age of the roof, square footage, type of construction, etc. Weather-related factors, such as wind, hail, hurricanes, and lightning are also used. The use of weather-related claims as a means for terminating a homeowner's policy relies on something over which the homeowner has no control or choice. As an example, Ellicott City suffered two 1,000-year storms within two years, July 2016 and May 2018; the Catonsville area also was a victim of the May 2018 storm. Homeowners in these areas were at a disadvantage – for some, just one more weather-related claim during that window of time could have meant the termination of their homeowners insurance.

The ability to use weather as both a method to price the risk of a homeowner's insurance policy and as a means to terminate that same homeowner's insurance policy is unfair to Maryland consumers.



For the above reasons and in the interests of Maryland insurance consumers, the PICD supports Senate Bill 345 and urges a favorable report.



John P. McLane
Assistant Attorney General
People's Insurance Counsel Division

Senator Cheryl Kagan_FAV_SB345

Uploaded by: Senator Kagan, Senator Kagan

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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

**SB345: Homeowner's Insurance -
Weather-Related Claims and Notice of Cancellation or Nonrenewal
Senate Finance Committee
Wednesday, February 12, 2020, 1:00 PM**

We buy insurance to protect ourselves financially from circumstances we cannot predict or control. However, current Maryland law allows an insurance company to cancel or drop a homeowner's policy if he or she makes three weather-related claims within three years. These are claims due to damage from a storm, wind, hail, lightning, ice, or fallen trees; these are **not** claims due to flooding, which are subject to federal flood insurance. It's important to note that these weather claims were not the fault of the resident; rather they were due to unpreventable damage.

Penalizing homeowners for multiple strokes of bad luck with weather-related damage is unfair. Such cancellations and non-renewals are likely to happen more often in the future, as climate change is making extreme weather events more frequent in Maryland and around the world.

SB345 prohibits insurance carriers from canceling a person's homeowner insurance because of weather-related claims that they couldn't have prevented. In the event of a policy cancellation, this bill would require insurance carriers to provide written notice to policyholders of their right to appeal the decision to the Maryland Insurance Commissioner.

New Jersey enacted similar legislation in 1999, which has not significantly impacted homeowners' insurance rates. There is no evidence of price hikes for policyholders or insurers leaving the market after the bill's enactment. This legislation would protect consumers who have experienced multiple instances of weather-related damage to their home and would ensure that policyholders receive the protections they purchased.

I urge a favorable report on SB345.

Marc Silverman_FAV_SB345

Uploaded by: Silverman, Marc

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February 11, 2020

Marc Silverman

Written Testimony SB 345: SUPPORT

Dear Chair Kelley, Vice Chair Feldman, and Members of the Finance Committee.

I have firsthand experience regarding the need to change the current mandate in Maryland which now permits Insurance Companies to cancel Homeowners Insurance in the event of submitting 3 weather related claims in a 3 year period.

I have lived in my home in Rockville Md. for 48 years. I have had Homeowners Ins. coverage with 2 Insurers. First with State Farm for approximately half that time through Erie Insurance. for the balance.

I have paid out approximately \$60,000 in, on time, premiums to date. I have never filed a claim until my First Insurance claim on February, 21 2017, due to possible hail damage to my roof on May 2, 2016. My next door neighbor had severe roof damage which resulted in required roof repair, thus I decided to pursue an investigation to determine if I had a similar problem. Erie Insurance sent out an adjuster and they determined that the roof was in acceptable condition with 15+ years of life, so no claim was to be paid out. This was fine with me, I was perfectly satisfied with this outcome.

Then, on March 3, 2018 the entire Mid-Atlantic region experienced a series of massive wind storms which severely affected the Washington, Virginia, and Maryland areas. The catastrophic winds at my home and back yard resulted in the uprooting of multiple large 45 year old pine trees, leaving massive holes in the ground large enough to accommodate SUVs. The fallen trees not only destroyed our rear fence and damaged other trees in our yard but also damaged trees in our neighbor's yards. The damage was so extensive that Erie Insurance had to bring in adjusters from other area to handle the claims.

The adjuster who examined our damage came in from Texas. The claim resulted in the amount of \$10,912, with our \$1000.00 deductible we were to received \$9,812.00. This was considered our 2nd claim.

On March 26, 2018, 23 days later, we had addition trees, and large limbs come down. We indicated to the Erie adjuster that we firmly believed this was residual damage from the March 3, 2018 wind storm claim. They arbitrarily determined it was a separate claim which resulted in \$1,996 of damage. With our \$1000.00 deductible we were to receive \$996.00. If they agreed, that it was as result of prior wind storm, the deductible would not have been

subtracted from the payout to us for this 3rd claim. At this time the 2nd claim file was still open and not paid out.

In November 2018 I received a letter from Erie Insurance stating that our Homeowners Insurance would be cancelled and not renewed as a result of 3 weather related claims in 3 years.

I then proceed to review my policy's declarations which were 9 + pages long, and buried in the documents, it in fact indicated, that Erie had the option to cancel and not renew. I never once reviewed the numerous pages of the insurance contract, nor do I believe anyone else does.

Current Maryland law gives homeowners the right to a hearing before an administration judge, to ascertain if one is wrongly cancelled. I believed at that time, that I had only 2 claims. Claim 1, hail issue and Claim 2, wind damage, and Claim 3, in my judgement should have been considered a result of Claim 2 and not a separate claim.

During my pre-hearing research, I discovered that if a Homeowner's Insurance claim is filed, but NO PAYOUT is made, it is not considered a claim. This now clearly eliminated Claim 1 because nothing was paid out. My defense was that Claim 1 and 3 were not legitimate and cancellation should be rescinded.

The administrative judge ruled in my favor and instructed Erie Insurance to rescind cancellation and reissue a new policy.

However, during this pre decision period time, I attempted to secure new insurance from a dozen or so insurance carriers and was not successful, simply because I had 3 weather related claims in 3 years on the books. I did in fact finally get one quote from one Company, Lloyds of London, for \$4300.00 a year. My prior and current premium at that time, was \$1400 a year.

Now, post decision, Erie submits a renewal policy to me for a higher number of \$1850.00 yearly. With a, now clean weather related claim record, I was able to secure an acceptable policy from a new Company and told Erie I was not interested in their business. Then I also cancelled my Auto Insurance with them and secured insurance elsewhere.

To Conclude:

How can the citizens of Maryland be considered negligent, and then penalized, for weather conditions they have no control over. How could The Maryland Insurance Administration permit and embrace an Insurance Industry mandate that is so disingenuous, unfair and clearly in the sole interest of the insurance industry. I would have assumed that their agenda was to be an arbiter between the Citizens of Maryland and the Insurance industry to insure a fair playing field for both.

By remanding the current authority for cancellation for 3 weather related claims in 3 years you will take a step to make the playing field more equitable. I urge favorable support on SB-345. Thanks for your time today. Marc Silverman

Nancy Egan_UNF_SB 345

Uploaded by: Egan, Nancy

Position: UNF

**Testimony of
American Property Casualty Insurance Association (APCIA)
Senate Finance Committee**

Senate Bill 345 Homeowner's Insurance - Weather-Related Claims and Notice of Cancellation or Nonrenewal

February 12, 2020

Letter of Opposition

The American Property Casualty Insurance Association (APCIA) is a national trade organization representing nearly 60 percent of the U.S. property casualty insurance market. APCIA appreciates the opportunity to provide written comments in opposition to Senate Bill 345. APCIA strongly opposes this bill which would eliminate the ability of an insurer to cancel or non-renew a homeowner's policy due to 3 or more weather related claims in the preceding 3-year period. In addition, it adds an additionally formalized protest process where there is already a less formalized one in existence. Additionally, the bill ignores the fact, that a consumer has the option of placing coverage through MD Joint Insurance Association, MD's Fair Plan. ¹ <https://www.mdjia.org>

Concept of Spreading Risk

Insurance is a method of reducing the uncertainty of financial loss through the transfer of risk by many individuals to an insurer. Since individuals generally cannot bear the financial consequence of a large loss, policyholders contribute premium payments to a common fund that covers losses and expenses. The policyholder thus exchanges the possibility of an unknown large loss for a comparatively small certain payment.

Insurers face the challenge of measuring risk; they need to know whether to accept a risk and how much to charge. Ratemaking involves measuring the probability of the occurrence of losses and the financial impact that may be expected to result from the hazards or perils against which insurance is provided. Since rates are determined before all future costs are known, the insurance pricing function is more difficult than that of most other businesses, making it among the most important and intricate company operations. Hence, the insurance industry is unique in American business because it cannot price its product like other businesses with full knowledge of costs and be guaranteed a return on investment. Each state, nevertheless, subjects insurance ratemaking to a specified type of statutory regulatory control; that is, rates may not be "excessive, inadequate, or unfairly discriminatory."

The initial estimates made by insurers were necessarily on a judgment basis, but as experience became available and the knowledge of the ratemaker increased, companies were able, by means of collecting statistics, to develop and refine methods of analyzing rating techniques. By compiling enough data, the insurance company is able to predict, with some accuracy, how often various types of claims are incurred and how much they might cost. Rates are based on past experience. After reviewing data from the past and analyzing trends and developments that have occurred, the ratemaker can estimate future losses and expenses. The greater the probability of occurrence or the financial impact of the event, the greater should be the price of insurance. In other words, to be fair, the price of insurance should be in proportion to the risk being exchanged.

¹ The JIA offers Homeowners, Dwelling and Commercial property insurance for qualified properties. The Maryland Joint Insurance Association is comprised of all voluntary market insurance companies which are licensed and writing basic property insurance, homeowners insurance and property insurance components of multi-peril policies in the State of Maryland. The Association is regulated by the Maryland Insurance Administration.

The basic principle underlying the development of insurance rates is the estimate of claims for the varying risks being insured during future months and a determination of whether current rates are adequate or inadequate to pay these losses. Loss experience is measured by two fundamental elements: (1) claim frequency; and (2) average loss or claim severity. Claim frequency is usually expressed as the number of claims occurring per housing units during one year. For example, homeowner claims occurring at the rate of 10 per 100 unit a year have a frequency of 10 percent. The average loss is the average cost of each claim paid or incurred for a particular coverage. The combination of these two factors is the loss cost, or the average amount of loss paid or incurred by the insurer for each housing unit covered.

The Concept of Risk Assessment

In response to public demands and needs, insurers have attempted to market increasingly competitive rating plans. Every individual must be charged a premium commensurate with his or her exposure to loss. This premium should be the same for all persons with essentially the same exposure. For insurers to price their product equitably, different traits need to be identified in order to determine those policyholders who are more likely to incur losses than others. Hence, this concept of assessing risks using certain characteristics was developed to reflect statistically well-defined categories having substantially different loss potential and loss costs.

For rating purposes, risk characteristics must be broad enough in the number of exposures (i.e., insured units) to permit the development of statistics that are credible. The principle of the law of large numbers states that, as the number of occurrences increases, actual results tend to equal expected results and a regular pattern can be observed. The greater the volume of experience reflected by each trait, the more significant the pattern of claim frequencies and claim costs will be.

Volume alone, however, is not sufficient. Risks within the same group must also be reasonably homogeneous so that the expected loss of each individual is relatively close to the average expected loss of that group. As no two risks are identical nor are they exposed to precisely the same hazards or perils, some amount of heterogeneity in any group will exist. However, the degree of such heterogeneity is not directly observable. Overlapping of distributions of expected losses between groups may for the most part be inevitable but, in any case, it cannot be verified or measured.

Formalized Protest Process

Additionally, SB 345 creates a formalized protest process where an insured currently has a general right to protest proposed cancellation or nonrenewal on a homeowner's insurance policy. The current review process under Md. Code Ann., Ins. § 27-613 allows the Maryland Insurance Administration to place proposed actions on hold while it reviews the protest prior to a formalized hearing. The proposed amended language would require the Commissioner to hold a hearing on protests of homeowner's insurance cancellation or nonrenewal within 30 days of the mailing of notice. This requirement places a costly administrative burden on the Commissioner and insurers alike. The current review process used by the Maryland Insurance Association provides greater flexibility, efficiency and protection for the involved parties than the process being proposed.

Conclusion

SB 345 would restrict fair and adequate risk assessment, prohibit competition and bring about forced subsidies for some consumers at the expense of others. Requiring insurers to continue providing coverage to a risk with high frequency of loss would likely raise the cost of insurance for all other policyholders. The current voluntary competitive system is far better, more flexible and fairer than one that is based upon ignoring economic realities.

For all these reasons, the APCIA urges the Committee to provide an unfavorable report on Senate Bill 345.

Nancy J. Egan, State Government Relations Counsel, DE, MD, VA, WV Nancy.egan@APCIA.org Cell: 443-841-4174

MAMIC_UNF_SB345

Uploaded by: Popham, Bryson

Position: UNF



191 Main Street, Suite 200 – Annapolis MD 21401 – 410-268-6871

February 12, 2020

The Honorable Delores G. Kelley, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, MD 21401

RE: Senate Bill 345 - Weather-Related Claims and Notice of Cancellation or Nonrenewal - OPPOSED

Dear Senator Kelley,

On behalf of the Maryland Association of Mutual Insurance Companies (MAMIC), I respectfully request an unfavorable report on Senate Bill 345.

MAMIC is comprised of eleven mutual insurance companies that are headquartered in Maryland and neighboring states. Approximately one-half of our members are domiciled in Maryland and are key contributors and employers in our local communities. Together, MAMIC members offer a wide variety of insurance products and services and provide coverage for thousands of Maryland citizens. As mutual insurers, MAMIC members are owned entirely by our policyholders, and any profits earned are either retained by the company or returned to policyholders in the form of dividends. By contrast, stock insurers are owned by shareholders. Profits generated by a stock insurer are distributed to investors who may or may not have a policy of insurance with the company.

Many of our members provide homeowners insurance policies for insureds in Maryland. Because weather is a key element among potential causes of loss under a homeowners insurance policy, it is a significant underwriting concern to our members when offering this type of insurance. Maryland adopted a statutory policy with respect to weather-related claims many years ago. That policy carefully balanced the needs of homeowners insurance consumers and the insurers who offer that product. Because our members tend to be small and medium-sized insurers, it is essential that we have a clear understanding of our exposure to weather-related claims at all times. The Maryland legislature provided this clarity in Section 27-501.

It is also worth noting that the Maryland Insurance Administration has adopted regulations to further protect insureds when an insurer seeks to impose a temporary moratorium on writing homeowners insurance in response to certain weather events, such as hurricanes or tropical storms. Together, this matrix of statutes and regulations has created a stable, predictable environment that permits insurers like the members of MAMIC to continue offering their products in Maryland.

Senate Bill 345 would completely disrupt this carefully crafted, longstanding public policy on homeowners insurance. For smaller insurers such as a typical MAMIC member, enactment of this legislation would create a significant risk to the ability of a smaller insurer to write homeowners insurance policies freely in Maryland. To our knowledge, there has been no evidence of consumer harm resulting from an insurer's actions under the current statute. Therefore, we respectfully request an unfavorable report on Senate Bill 345.

Thank you,

Jill Showalter
MAMIC President

MIA_LOI_SB345

Uploaded by: Paddy, Michael

Position: INFO

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
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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.