

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 1060

(Senator Middleton)

Finance

Homeowner's Insurance - Required Notices

This bill consolidates various notice requirements related to homeowner's insurance into a single notice and makes a series of conforming changes. This new notice must be provided by an insurer to an applicant or policyholder at the time of application and at each renewal of the policy. In addition to existing notification requirements, the notice must include two other statements: (1) that coverage for losses caused by water main breaks may not be covered under the policy; and (2) that includes the offer of coverage for loss caused by water backups that is not caused by the negligence of the insured (as required by § 19-202 of the Insurance Article).

The bill takes effect January 1, 2015, and applies to all policies of homeowner's insurance issued, delivered, or renewed in the State on or after that date.

Fiscal Summary

State Effect: Maryland Insurance Administration (MIA) special fund revenues increase by as much as \$18,750 in FY 2015 due to \$125 rate and form filings fees collected from as many as 150 homeowner's insurers in the State as a result of the bill. Review of the filings can be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: *Under current law*, § 19-202 of the Insurance Article states that an insurer that issues or delivers a homeowner's insurance policy must offer to provide coverage for loss that is caused by or results from water that backs up through sewers or drains and is not caused by the negligence of the insured. It also states that (1) if an application or renewal for insurance is made by the phone, an insurer is in compliance with this requirement if, within seven days after the application or renewal date, the insurer sends an offer to the applicant or insured and (2) if an application or renewal for insurance is made using the Internet, an insurer is in compliance with this requirement if the insurer sends an offer to the applicant or insured.

Under current law, insurers must provide specified notices to applicants and policyholders in the following circumstances.

- Annually, an insurer must provide a policyholder with a statement that summarizes the coverages and exclusions under the policy. The statement must include specified information related to where, in the policy and elsewhere, a policyholder can obtain more information.
- At the time a policy of homeowner's insurance is initially purchased, an insurer that sells or negotiates homeowner's insurance in the State must provide an applicant with a written notice stating that a standard homeowner's insurance policy does not cover losses from flood. The notice must provide information related to the National Flood Insurance Program and other sources of flood insurance, as well as additional specified information. If an application is made by telephone or the Internet, the insurer is deemed to be in compliance if the insurer takes certain actions.
- If an insurer offers a homeowner's or renter's insurance policy in the State that does not provide coverage for losses caused by specific breeds or specific mixed breeds of dogs, the insurer must provide the applicant or policyholder with a written notice stating that the policy does not provide this coverage and identifies the breeds or mixed breeds that are not covered. This notice must be provided at the time of application for or issuance of a policy of homeowner's or renter's insurance and at each renewal of a policy.
- At the time of application, an insurer that sells or negotiates homeowner's insurance in the State must provide an applicant with a written statement that lists all additional optional coverage available from the insurer to the applicant. This notice must contain a specified statement. If an application is made by telephone

or the Internet, the insurer is deemed to be in compliance if the insurer takes certain actions.

- If an insurer has adopted an underwriting standard that requires a percentage-based deductible in the case of a hurricane or other storm, the insurer must provide each policyholder with an annual statement explaining how the deductible is applied.
- An insurer that offers a premium discount related to loss mitigation for hurricanes and other storms must provide a policyholder with an annual statement regarding the availability of the discount and the method to apply for the discount.
- At the time of application for or issuance of a policy of homeowner's or renter's insurance and at each renewal of a policy, an insurer that offer's homeowner's insurance in the State must provide a notice describing the circumstances by which the insurer may cancel or refuse to renew coverage. This includes weather-related claims and changes in the physical condition or content of the insured premises.
- If an insurer issues a policy of homeowner's insurance that contains an anti-concurrent causation clause, the insurer must annually provide a policyholder with a notice that describes the clause and provides specified related information.

Under the bill, each of the separate notification requirements is consolidated into a single notice requirement. An insurer that issues, sells, or delivers a policy of homeowner's insurance in the State must provide this notice to an applicant at the time of application and to a policyholder at each renewal of a policy. The notice must be clear and specific, and it does not create a private right of action. The notice is not part of the policy or contract of insurance, and all rights, duties, and obligations are controlled by the policy or contract of insurance. The Insurance Commissioner may adopt regulations to prescribe the form that insurers are required to use to provide this notice but may allow an insurer to use a different form if it is approved by the Commissioner prior to use. Provisions under current law related to deemed compliance by an insurer when certain applications are made by telephone or the Internet are not included in the bill, as the consolidated notice requirement applies more broadly.

Under current law, § 19-214 of the Insurance Article, which is repealed by the bill, requires an insurer to inform policyholders that, in addition to other allowable reasons for cancellation or refusal to renew under Maryland law, the insurer may cancel or refuse to renew coverage on the basis of one or more weather-related claims made within the preceding three-year period if (1) the insurer has provided written notice to the insured for reasonable or customary repairs or replacement specific to the insured's premises or

dwelling; (2) the insured failed to make these repairs; and (3) if made, the repairs would have prevented the loss for which a claim was made. This notice must refer to *specific conditions* concerning an insured's specific premises or dwelling and may not be a *general notification* of repairs or replacements common to that type of premises or dwelling; however, *the bill* does not include this provision.

Background: In December 2013, MIA released a report regarding the incorporation of all statutorily required disclosures for homeowner's insurance policies into a single document. To develop such a document, in 2012, MIA conducted 39 consumer focus group meetings throughout the State to obtain feedback from consumers; most participants expressed that a customized disclosure containing specific information about their policies would be more helpful than a notice containing generic examples of policy provisions. These findings were discussed with insurance industry representatives, and a final draft document was developed. The draft document was uploaded to MIA's website in early 2013 for additional comments.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

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