

SB580_ Homeowners' Insurance Testimony 2-22-2021.p

Uploaded by: Kagan, Sen. Cheryl

Position: FAV

CHERYL C. KAGAN
Legislative District 17
Montgomery County

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Education, Health, and
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Joint Audit Committee
Joint Committee on Federal Relations



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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

SB580: Homeowner's Insurance - Weather-Related Claims
Hearing: February 24, 2021, 1:00pm | Senate Finance Committee

We buy insurance to protect ourselves financially from circumstances we cannot predict or control. Unfortunately, storms, wind, hail, lightning, ice, and falling trees can severely damage homes. Maryland law currently allows an insurance company to cancel a homeowner's policy if there are three weather-related claims within three years. [SB580](#) would protect those who have experienced damage to their home (through no fault of their own) from three natural disasters within three years.

Climate change is increasing the frequency of extreme weather events. The Chesapeake Bay's rising water levels will likely lead to increased flooding in our neighborhoods. Cancellations and non-renewals of homeowner's insurance due to weather-related claims will likely increase if no action is taken.

Last year, Del. Palakovich Carr and I introduced similar legislation ([SB345/HB333](#)) to address this consumer protection issue. This year's version clarifies that a weather-related claim does not count against the homeowner in the three-strike rule if it is:

- less than the deductible; or
- settled with no payout by the insurance company to the homeowner.

It also modifies cancellation policies to mirror those of auto-insurance companies; homeowners would be notified of their (existing) right to appeal.

[New Jersey](#) enacted similar legislation in 2013, and [Delaware](#) followed suit in 2014. Scare tactics that there would be price hikes for policyholders or that insurers would flee the state after enactment have proven to be unfounded. SB580 will protect consumers who have experienced multiple instances of weather-related damage to their homes.

I urge a favorable report on SB580.

NOTE: Attached is written testimony from District 17 constituent, Marc Silverman-- whose experience with Erie Insurance inspired this legislation. Though he does not feel tech-savvy enough to testify virtually, his compelling story is worth reading.

Marc Silverman

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February 24, 2021

Marc Silverman

Written Testimony SB 580: SUPPORT

Dear Chair Kelley, Vice Chair Feldman, and Senate Finance Committee:

I have firsthand experience regarding the need to change the current mandate in Maryland which now permits property insurance carriers to cancel a person's homeowners insurance if a policyholder makes 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 insurance coverage through two insurers during this time, first through State Farm and then through Erie Insurance.

To date, I have paid out approximately \$60,000 in premiums. I have always paid my premiums on time, and had never filed a claim until my first on February, 21 2017, due to possible hail damage to my roof which occurred 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.

The second weather related claim I filed was due to a series of massive wind storms which severely affected much of the Mid-Atlantic region on March 3, 2018. The catastrophic winds 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 additional 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 policy would be cancelled and not renewed as a result of 3 weather related claims in 3 years. I then proceeded 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 a policy has been 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.

Prior to this ruling, 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 a year. My prior and current premium at that time, was \$1400 a year.

After the Maryland Insurance Administration ruled in my favor and instructed Erie Insurance to reissue a new policy, 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.

Thank you for the opportunity to submit testimony. I respectfully urge a favorable report on SB 580.

Marc Silverman

OAG PICD SB 580 Support 2021-02-22.pdf

Uploaded by: McLane, John

Position: FAV

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Senate Bill 580
Homeowner's Insurance – Weather-Related Claims

Senate Finance Committee – Hearing: February 24, 2021

SUPPORT

The People's Insurance Counsel Division ("PICD") supports Senate Bill 580 as it is written. 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.

This bill will clarify the definition of a "weather-related claim" as it pertains to the cancellation or nonrenewal of a homeowners insurance policy. This bill creates a statutory change so that if the "claim" amount is less than the policy deductible amount or results in no payout to the homeowner by the insurer, then it may not be considered for purposes of cancellation or nonrenewal of the homeowners policy.

This is a common-sense solution to remove any ambiguity in determining what qualifies as a "weather-related claim."

For the above reasons and in the interests of Maryland insurance consumers, the PICD supports Senate Bill 580 and urges a favorable report.

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

SB580 - Evelina Sarapi_ Homeowner's Policy Testimo

Uploaded by: Sarapi, Evelina

Position: FAV

SB580: Homeowner's Insurance - Weather-Related Claims

February 24, 2021

Position: **FAVORABLE**

Honorable Chair Kelley, Vice Chair Feldman, and Senate Finance Committee Members:

A changing climate must coincide with changing weather-related insurance policies. Current Maryland law provides homeowners' insurance companies with the right to cancel a policy if the consumer has made three or more claims within a three-year period. The law fails to protect consumers when they are faced with damage that is out of their hands, and it prioritizes the needs of the insurance company before the policyholder.

Maryland takes great pride in its Chesapeake Bay, but climate change continues to alter the spirit of our state. As a study from the [University of Maryland](#) explained, rising sea levels in the Mid-Atlantic have significantly impacted the Eastern Shore and Bay communities due to a drastic increase in flooding and storms. In the 1950s, Annapolis was faced with approximately 3.8 flood days per year, however, between the years 2007 to 2013, Annapolis was faced with approximately 39 flood days per year.

Insurance was created and is utilized as a form of risk management. A consumer should feel protected by their insurance policies. Catching a falling plate before it breaks is preventable, but a tree collapsing on one's house causes damage is neither preventable nor controllable.

[SB580](#) will revamp the current inequitable law that only protects consumers with less than three weather-related claims within a three-year period. This bill clarifies that a weather-related claim resulting in no payout to the customer (or a payout of less than the deductible) does not count towards the cancellation or non-renewal of the policy.

The right steps need to be taken to protect homeowners from being penalized for damage at no fault of their own. By requiring that weather-related claims do not count against the cancellation of a policy, SB580 seeks to both respect and protect consumers faced with damage to their home that is beyond their control.

Our homes are our place of safe haven. As an unprecedented tragedy strikes, a homeowner should not be filled with dread of losing their insurance policy.

I urge a favorable report of SB580.

Sincerely,

Evelina Sarapi
Darlington, MD

MCRC Testimony 2021 SB580.pdf

Uploaded by: Stern, Isadora

Position: FAV

**Testimony to the Senate Finance Committee
SB 580: Homeowners Insurance-Weather-Related Claims
Position: Favorable**

February 24, 2021

The Honorable Delores G. Kelley, Chair
House Economic Matters Committee
3 East, Miller Senate Office Building
Annapolis, Maryland 21401
Cc: Members, Senate Finance Committee

Honorable Chair Kelley and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial inclusion and economic justice for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are here today in strong support of SB 580. SB 580 would prohibit a claim for a weather-related event for the purpose of canceling or refusing to renew the coverage on two conditions: 1) if the claim is for an amount of loss that is less than the deductible amount, or 2) results in no payout to the homeowner by the insurer.

This legislation complements current law which says that an insurer may cancel or refuse to renew coverage if there are three or more weather-related events within the preceding three years. However, current law is silent on whether the weather-related claims must be more than the deductible amount or what happens in the event that the claim results in no payout.

Climate change is leading to an increase in extreme weather events including hurricanes, tornadoes, and frequent storms and flooding throughout Maryland. This extraordinary situation could not have been predicted by homeowners who purchased homes even 5-10 years ago. Therefore, SB 580 extends protections to consumers by ensuring that the three weather events that may lead to the cancellation or non-renewal of a policy are only events in which there was a cost to the insurer. If the cost did not exceed the deductible, or if there was no cost, then the event does not count toward the three events.

This is a commonsense solution to clarify current law and balance the needs of insurers and consumers at a time of economic hardship, uncertainty, and climate-induced extreme weather.

For all of these reasons, we support SB 580 and urge a favorable report.

Best,

Marceline White
Executive Director

SB 580 Support Letter 2021.pdf

Uploaded by: Straughn, Karen

Position: FAV

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February 24, 2021

To: The Honorable Delores G. Kelley
Chair, Finance Committee

From: Karen S. Straughn
Consumer Protection Division

Re: Senate Bill 580 – Homeowner's Insurance – Weather Related Claims (SUPPORT)

The Consumer Protection Division of the Office of the Attorney General submits the following written testimony in support of Senate Bill 580 submitted by Senator Cheryl C. Kagan. The bill prohibits the consideration of weather-related claims that result in an amount less than the insured's deductible or are resolved without payment by the insurer in determining whether to cancel or non-renew a homeowner's policy.

Presently, an insurer may cancel or non-renew a homeowner's policy if the insured has experienced three or more weather related losses in a three-year period. If a loss results in no payment to the insured, either because the amount payable would be less than the deductible or because there is no payment made, this should not contribute to terminating coverage. While there are expenses involved in a loss that may not result in payment, those expenses usually are small and should be considered a cost of doing business.

Weather-related claims are outside of the control of the insured. An individual may simply be the victim of unfortunate circumstances. If no payment is made on behalf of the insurer, however, further detriment to the insured should not occur. While minimal losses are often considered something that should be handled independently of the insurance company, the size of the loss may not be known at the time that it is reported to the insurance company.

For these reasons, we ask that the Finance Committee return a favorable report on this bill.

cc: The Honorable Cheryl C. Kagan
Members, Finance Committee

SB 580 APCIA HOCLAIM OPPOSE 02242021 FINAL .pdf

Uploaded by: Egan, Nancy

Position: UNF

Testimony of
American Property Casualty Insurance Association (APCIA)
Senate Finance Committee
Senate Bill 580- Homeowner's Insurance - Weather-Related Claims
February 24, 2021

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 580. APCIA strongly opposes this bill which would prevent an insurer from considering a claim for a weather-related event, in a three-year period, for the purposes of canceling or refusing to renew coverage if the claim is: for an amount of loss that is less than the insured's deductible under the policy or resolved with no payout to the homeowner by the insurer. While it may seem superficially that not including claims below the deductible amount or with no payout would not significantly impact either party to an insurance policy contract, the truth is that such limitations would significantly impair insurance risk assessment and rate calculations in a competitive market.

The Concept of Risk Assessment

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.

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 a one-year period. 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.

Risks within the same group must 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.

Homeowner's Availability in the Marketplace

Maryland's marketplace remains competitive with 136 companies writing homeowners insurance in the standard market. Currently, with 67% of Marylanders owning their homes, homeowner rates are very affordable compared to the national

average. Maryland homeowner rates ranks 30th in the country according to Bankrate.com. According to Bankrate.com, the average premium nationwide is \$1,192 as compared to \$1,022 for Maryland, almost \$200 less.¹

Maryland's practice of permitting cancellation after 3 weather related claims is an exception to the rule. The majority of the states have no restrictions due to weather claims. While Maryland is similar to Delaware, with both states limiting cancellations to 3 weather related claims with in a 36-month period; and D.C. permits non-renewals for 2 or more claims in a 36-month period, Pennsylvania has no such restrictions, and West Virginia permits cancellation if there is more than one weather claim.

The Insurance Code provides additional protections to the consumer in cases of cancellation. Section 27-501(p) of the Insurance Article provides that if a consumer contacts their insurer or producer to asking about whether the policy covers a certain loss or about making a claim, that inquiry cannot be used in cancelling a policy. In addition, insurance companies may use mitigating factors in their decision as to whether to cancel for weather related claims (*See* 27-501(n) of the Insurance Article) such as the severity of the losses, the length of time an insured has been a policyholder, loss mitigation of previous losses, or the offering of higher deductibles. In addition, if a company does consider claim history for purposes of canceling a policy, the insurer must provide the consumer with a disclosure at time of application and at each renewal.

There does not appear a need for this bill. According to the Maryland Insurance Administration's testimony in 2020 on a similar bill ², instances of non-renewal for three or more weather related claims in the past three years appears to be uncommon. In calendar year 2019, the MIA received 110 complaints protesting the cancellation but only five of these were due to weather-related claims. Additionally, the bill ignores the fact, that a consumer has other options of placing coverage through the surplus lines market or MD Joint Insurance Association, MD's Fair Plan. <https://www.mdjia.org> However, according to the MIA's testimony, 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 marketplace or residual marketplace but according to the MIA, 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. This would indicate that homeowner policyholders have options to place their insurance elsewhere.

Conclusion

Senate Bill 580, by disallowing use of claims made below the deductible amount or without a payout from cancellation and non-renewal determinations, would adversely impact fair and adequate risk assessment, potentially limit competition, as well as 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 other policyholders. The current system is far better, more flexible and fairer than one that is based upon ignoring economic realities.

For all these reasons, the APCI urges the Committee to provide an unfavorable report on Senate Bill 580.

Nancy J. Egan, State Government Relations Counsel, Nancy.egan@APCI.org Cell: 443-841-4174

¹ <https://www.bankrate.com/insurance/homeowners-insurance/in-maryland/>

² Based on the MIA's 2020 testimony on a similar bill SB 345. Available; <https://mgaleg.maryland.gov/mgaweb/Legislation/WitnessSignup/SB0345?ys=2020RS>