American Property Casualty Insurance Association
INSURING AMERICA apci.org

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 cancelation 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 APCIA urges the Committee to provide an unfavorable report on Senate Bill 580.

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[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/mgawebsite/Legislation/WitnessSignup/SB0345?ys=2020RS