

STATE FARM INSURANCE COMPANIES
SENATE BILL 52 (PROPERTY INSURANCE – SETTLEMENT OF CLAIMS
AND NOTICES)
POSITION: OPPOSED

Senate Bill 52 would define what actual cash value means in the settlement of a claim under a residential or commercial property insurance policy to be the cost to repair, rebuild or replace the property less a reasonable deduction for physical depreciation based on the condition of the property at the time of the loss. The bill would prohibit including the expense of labor (as defined in the bill) as a component of physical depreciation, but states that this prohibition does not apply to labor costs that are intrinsically included in the cost of manufactured materials or goods. The bill would make even a single violation of the new law an unfair claim settlement practice. Additionally, the bill would require 45 days notice prior to the renewal of a homeowners or renters policy of changes in coverage limits, risks, or deductibles that will be made in the renewal policy.

State Farm opposes SB 52 because labor depreciation should be permitted if consistent with clear language in the policy in order to help maintain affordability. If the Committee moves the bill forward, State Farm requests the following amendments to clarify the bill language and mitigate unintended consequences:

1. Residential property insurance (page 2, lines 1-2) is not defined in the bill or in the existing law. We request that the bill apply to homeowners' insurance policies, and that commercial property insurance policies be removed from the bill.
2. The bill appears to only apply to policies that insure property on an ACV basis. We request the bill be clarified to make this clear, so it does not apply to the calculation of actual cost value under a replacement cost value policy, as follows: lines 3-6 on page 2: “(1) PROVIDES FOR THE ADJUSTMENT AND SETTLEMENT OF A FIRST-PARTY REAL AND PERSONAL PROPERTY CLAIMS THAT REQUIRE THE REPAIRING REBUILDING, OR REPLACING OF DAMAGED OR DESTROYED PROPERTY BASED ON THE ACTUAL CASH VALUE OF THE PROPERTY, UNLESS THE POLICY PROVIDES FOR A REPLACEMENT COST BENEFIT AFTER THE REPAIRING, REBUILDING OR REPLACING THE PROPERTY IS COMPLETE; AND”.

3. The bill's definition of ACV is problematic because the ACV is calculated before the work is done, so the actual cost to repair, rebuild or replace is not known at the time of claim settlement. We request this provision be amended as follows: On page 2, lines 10-13: "~~THE AMOUNT IT WOULD COST THE INSURED TO REPAIR, REBUILD OR REPLACE THE DAMAGED OR DESTROYED PROPERTY~~ VALUE OF THE DAMAGED PART OF THE PROPERTY AT THE TIME OF THE COVERED LOSS CALCULATED AS THE ESTIMATED COST TO REPAIR, REBUILD, OR REPLACE THE DAMAGED OR DESTROYED PROPERTY LESS A REASONABLE DEDUCTION FOR PHYSICAL DEPRECIATION BASED ON THE CONDITION OF THE PROPERTY AT THE TIME OF THE COVERED LOSS; OR"
4. Contractor overhead and profit and any sales taxes are part of the cost of labor. We request that lines 26-28 on page 2 be stricken to avoid confusion.
5. We request that the notice of coverage changes prior to renewal of a homeowners or renters insurance policy under the new Section 19-217 (lines 4-29 on page 3) be stricken. This new required notice would need to be a separate notice adding programming and other administrative expenses to homeowners' insurance. The bill is also unclear as to the method of providing notice, another potential source of administrative expense and difficulty. Further, existing law (COMAR 31.08.05.02) already ensures that there is adequate notice of coverage changes. If this section is not stricken, clarification is needed to reconcile the existing regulation with the new notice requirement. Further, the bill does not provide an exception for insured-initiated requests for changes.
6. We request that the new ACV law not be added to the list of single instance unfair claim settlement practices (strike lines 6-7 on page 4). Maryland is already in a minority of states with any single instance UCSPs. If this new law is added to the Unfair Claim Settlement Practices Act, it should only be for a pattern or practice of violations.
7. We request a delayed effective date of January 1, 2027 to allow sufficient time for required policy changes.