

HOUSE BILL REPORT

SSB 5720

As Reported by House Committee On:
Consumer Protection & Business

Title: An act relating to risk mitigation in property insurance.

Brief Description: Concerning risk mitigation in property insurance.

Sponsors: Senate Committee on Business, Financial Services, Gaming & Trade (originally sponsored by Senator Stanford).

Brief History:

Committee Activity:

Consumer Protection & Business: 3/14/23, 3/28/23 [DPA].

Brief Summary of Substitute Bill
(As Amended By Committee)

- Allows property insurers to include specified risk mitigation and prevention goods and services as part of commercial property insurance policies.
- Increases the maximum value of specified goods and services that insurers can provide to an insured in a 12-month period from \$1,500 to the greater of \$7,500 or 10 percent of the annual policy premium.

HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

Majority Report: Do pass as amended. Signed by 13 members: Representatives Walen, Chair; Reeves, Vice Chair; Corry, Ranking Minority Member; McClintock, Assistant Ranking Minority Member; Chapman, Cheney, Connors, Donaghy, Hackney, Ryu, Sandlin, Santos and Volz.

Staff: Michelle Rusk (786-7153).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background:

Risk Mitigation in Property Insurance.

With the exception of commercial property insurance policies, property insurers may, with prior approval of the Insurance Commissioner (Commissioner), provide the following specified goods and services with a property insurance policy to assist in reducing the probability or extent of loss under the policy:

- goods, including a water monitor;
- foundation strapping to mitigate losses due to an earthquake;
- ongoing services, including home monitoring or brush clearing to mitigate losses due to wildfires; and
- other goods and services as the Commissioner may identify in rule.

In any 12-month period, the aggregate value of risk mitigation or prevention goods and services cannot exceed a total of \$1,500.

Rate Filing.

A property insurer's rate filing must include the following information to obtain the Commissioner's prior approval for inclusion of risk mitigation or prevention goods and services with a non-commercial property insurance policy:

- a description of either the specific goods or services, or both, to be offered;
- a description of the method of delivering either the specific goods or services, or both, being offered; and
- the selection criteria for insureds receiving either the specific goods or services, or both, being offered.

The rate filing must also demonstrate that its rates account for the expected costs of the provided goods and services and anticipated reductions in claims costs. When the Commissioner's approval is given, inclusion of risk mitigation or prevention goods and services does not violate insurance laws concerning prohibited inducements or rebates.

Insurers are exempt from these rate-filing requirements if they are conducting a pilot program providing risk mitigation or prevention goods and services in connection with an insurance policy, in accordance with rules adopted by the Commissioner. Such a pilot program may not last longer than two years.

Summary of Amended Bill:

Commercial Property Insurance Policies.

Property insurers are allowed to include specified risk mitigation or prevention goods and services with a commercial property insurance policy, subject to certain requirements, including the types of goods and services permitted, rate filing requirements, and limits on the aggregate value of the goods and services provided. Property insurers may also conduct

a pilot program in connection with a commercial property insurance policy.

Maximum Value of Allowable Goods and/or Services.

The maximum limit on the value of goods and services that property insurers can provide to an insured in any 12-month period is increased to the greater of \$7,500 or 10 percent of the annual policy premium. The Commissioner's authority to adopt rules increasing the maximum limit on the value of authorized goods and services is removed.

The Commissioner must submit a report to the Legislature by September 1 of every even-numbered year beginning on September 1, 2024, including: (1) the total number of new property insurance policies issued with goods or services as part of the policy; (2) the number of new commercial property insurance policies issued with goods or services valued at specified amounts; and (3) the number of new residential property insurance policies issued with goods or services valued at specified amounts. In preparing its report, the Commissioner must rely on information currently held by the Commissioner, or routine filings by insurers held by the Commissioner.

Amended Bill Compared to Substitute Bill:

The amended bill:

- modifies the limit on the value of authorized goods and services that may be provided with a policy of property insurance;
- removes the Commissioner's authority to adopt rules increasing the value of authorized goods and services; and
- requires the Commissioner to report to the Legislature regarding data concerning the provision of authorized goods and services with property insurance policies, and requires the Commissioner to rely on data currently held by the Commissioner or submitted in routine filings by insurers held by the Commissioner.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on March 30, 2023.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is just expanding what we already allow in the residential property insurance market to the commercial market, and is tied to accountability to make sure offered goods and services are actually reducing risk. The Commissioner will see rate filings from commercial property insurers and have the ability to make sure insurance companies are providing goods and services for the permissible purposes. There are

sometimes third parties that may want to offer these goods and services, and we need to keep it limited to the insurance companies themselves, because that is who the state is able to monitor and assess impacts on.

Legislative action in 2018 created a first-of-its-kind mitigation program to allow property insurers to provide these risk mitigation goods and services and not be in violation of inducement and rebating laws. The bill aligns the allowable value with what was in rule after the original law was enacted. Reducing the frequency and severity of property insurance claims is one of the best ways to keep the property insurance market healthy, and we are hopeful that, by allowing commercial property insurers access to this program, they will create programs that also help their insureds reduce claims.

(Opposed) None.

Persons Testifying: Senator Derek Stanford, prime sponsor; David Forte, Office of the Insurance Commissioner; and Kris Tefft, American Property Casualty Insurance Association.

Persons Signed In To Testify But Not Testifying: None.