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TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

TWENTY-EIGHTH LEGISLATURE
Regular Session of 2016

Wednesday, February 17, 2016
2:00 p.m.

TESTIMONY ON HOUSE BILL NO. 370 – RELATING TO HAWAII PROPERTY INSURANCE ASSOCIATION.

TO THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner (“Commissioner”), testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department submits the following comments.

This bill requires member insurers of the Hawaii Property Insurance Association (“HPIA”) to renew policies that were in effect as of January 1, 2014. The bill also provides for continued coverage under an existing HPIA policy upon a transfer in ownership of the property.

Presently, HPIA issues policies in areas beyond the Puna area that was threatened by the lava flow in late 2014 continuing into 2015. The prohibition of non-renewals may be too broad. The Department would be willing to work with interested parties to address non-renewals of policies in areas threatened by a lava flow.

We thank this Committee for the opportunity to present testimony on this matter.

HAWAII INSURERS COUNCIL
A trade association of property and casualty insurance companies

Pauahi Tower, Suite 2010
1003 Bishop Street
Honolulu, Hawaii 96813
Telephone (808) 525-5877

Alison H. Ueoka
President

TESTIMONY OF MARIE WEITE

COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Representative Angus L.K. McKelvey, Chair
Representative Justin H. Woodson, Vice Chair

Wednesday, February 17, 2016
2:00 p.m.

HB 370

Chair McKelvey, Vice Chair Woodson, and members of the Committee on Consumer Protection & Commerce, my name is Marie Weite, Assistant Vice President of Claims of First Insurance Company of Hawaii and the Law & Regulations Chair of Hawaii Insurers Council. Hawaii Insurers Council is a non-profit trade association of property and casualty insurance companies licensed to do business in Hawaii. Member companies underwrite approximately thirty-six percent of all property and casualty insurance premiums in the state.

Hawaii Insurers Council **opposes** this bill which requires that an insurance policy insuring properties in the lava zone be continued until expiration after the transfer in ownership of the property. Homeowners insurance policies are underwritten based on the property itself as well as the person applying for coverage. If the property is transferred, the policy needs to be rewritten and underwriting guidelines met by the new owner. This bill is unnecessary because if there is no pending or occurring natural disaster, there is a market for the subject insurance and HPIA as a backstop to provide coverage.

Thank you for the opportunity to testify.

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Hawaii State Legislature
House Committee on Consumer Protection and Commerce
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

February 16, 2016

Filed via electronic testimony submission system

Dear Representative Angus L.K. McKelvey, Chair; Representative Justin H. Woodson, Vice Chair; and honorable members of the House Committee on Consumer Protection and Commerce:

RE: HB 370, Hawaii Property Insurance Association - NAMIC's Written Testimony in Opposition

Thank you for providing the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to your committee for the February 17, 2016, public hearing. Unfortunately, I will not be able to attend the public hearing, because of a previously scheduled professional obligation.

NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers.

The 1,300 NAMIC member companies serve more than 135 million auto, home and business policyholders and write more than $208 billion in annual premiums, accounting for 48 percent of the automobile/homeowners market and 33 percent of the business insurance market. NAMIC has 69 members who write property/casualty and workers' compensation insurance in the State of Hawaii, which represents 30% of the insurance marketplace.

Through our advocacy programs we promote public policy solutions that benefit NAMIC companies and the consumers we serve. Our educational programs enable us to become better leaders in our companies and the insurance industry for the benefit of our policyholders.

NAMIC and its members appreciate the concerns that some homeowners have in regard to natural disaster exposure, and the consumer's need to insurer their property. Insurers in the State of Hawaii are competitive and strive to provide consumers with a wealth of insurance options that properly and accurately match risk to insurance rate. In order to address the insurance needs of consumers in a large and diverse marketplace, insurers have to engage in reasonable and comprehensive rating and underwriting practices designed to promote pro-consumer market competition. Since insurers, especially mutual insurance companies, have a duty to their policyholders as both “individual” policyholders and the “collective” of policyholders, who comprise the mutual insurance company (a non-stockholder owned company), insurers need to have flexibility to rate and underwrite their own insurance book of business in a manner that best addresses the needs of their particular collective of policyholders.

Consequently, the proposed restrictions on underwriting freedom are concerning, because they are inconsistent with standard actuarial principles, and will hinder insurers in their ability to engage in comprehensive risk-based underwriting. Consideration of natural disaster exposure is a necessary and important part of the insurance risk assessment. Prohibiting insurers from being able to non-renew a property based upon a legitimate risk variable (exposure to a natural disaster) is detrimental to the welfare of all insurance consumers.

Insurance consumers want and deserve their insurance rates to reflect their personal risk of loss exposure and consumers don’t want to be forced to subsidize the insurance rates of individuals, who have made a personal decision to accept a specific higher-risk of loss exposure. “Low risk of loss” consumers should not be required to subsidize the insurance rates of “high risk of loss” consumers. Even though insurance is a form of risk aggregation and sharing, basic notions of fairness still hold true, and insurers should be free to make the business decision as to what is the best composition of risk exposure for its policyholders. If an insurer wants to non-renew a property, because of a particular risk of loss exposure, it should have the right to do so, and the rest of the pool of the insurers in the marketplace should have the right to decide if they want to compete for those policyholders.

For the aforementioned reasons, NAMIC respectfully requests that the committee **VOTE NO on HB 370,** and let insurers compete for business in a manner that best addresses their own business model and in a way that best addresses the needs of their insurance consumers.

Thank you for your time and consideration. Please feel free to contact me at 303.907.0587 or at crataj@namic.org, if you would like to discuss NAMIC’s written testimony.
Respectfully,

Christian John Rataj, Esq.
NAMIC Senior Director – State Affairs, Western Region

HOUSE COMMITTEE
ON
CONSUMER PROTECTION AND COMMERCE

February 16, 2016

House Bill 370 Relating to Hawaii Property Insurance Association

Chair McKelvey, Vice Chair Woodson, and members of the House Committee on Consumer Protection and Commerce, I am Rick Tsujimura, representing State Farm Mutual Automobile Insurance Company (State Farm).

State Farm offers the following comments on House Bill 370 Relating to Hawaii Property Insurance Association. State Farm opposes this measure. State Farm believes that this issue was addressed last session in SB 589 (Act 32), which has been codified at HRS 431:21-119 and 431:10E-142.

Our concern is whether policies in areas designated by the Commissioner as being eligible for coverage under the Hawaii Property Insurance Association (HPIA) can be nonrenewed by an insurer for legitimate underwriting concerns, keeping in mind that those same properties will then be eligible for coverage under the HPIA if coverage is not available in the voluntary market. Last year the legislature imposed new restrictions on the ability of insurers to nonrenew or cancel policies covering properties subject to the "threat of imminent disaster from a lava flow." Under that Act, an insurer may only nonrenew up to 5% of its policies in a lava flow area, unless the nonrenewal is due to nonpayment of premium. The same Act provided that if insurance is unavailable, the HPIA must remove its moratorium.

This bill would place a burden on the voluntary market that will impact the rates for all Hawaii policyholders, a burden that the HPIA was created to handle by spreading it across the market. The HPIA was created for just this purpose, and shifting this risk to the voluntary market could have unintended repercussions. State Farm urges the Committee to hold this bill.

Thank you for the opportunity to present this testimony.

TO: Committee on Consumer Protection and Commerce
Hawaii State House of Representatives, 28th Legislature
Regular Session 2016

LATE TESTIMONY

Measure #370, Hearing set for 2 p.m.
February 17, 2016

Greetings, Honorable Legislators...

My name is Frances K. (Frankie) Stapleton and I have been a homeowner and resident of Puna, in Nanawale Estates subdivision for the past 35 years. I want to testify in support of HB370, introduced by Rep. Joy San Buenaventura.

When I bought my federal-govt subsidized home in Nanawale 37 years ago, there were no lava zones. I had no problem getting the required home insurance. The first mention of lava zones was in a 1978 USGS publication, not something the general public or business community was immediately aware of. It was when geologist Christina Heliker updated the lava zone study in 1990, with subsequent wide media coverage, that real estate lenders and insurance companies started using the lava zones for a basis of their business transactions.

It was only in the past few years that State Farm quit writing new policies for Lava zones 1 & 2 and thankfully, SF grandfathered in those of us who had been buying their home insurance for many years. This bill, HB370, puts teeth into that practice, to mandate the grandfathering in of such policies, their current "bill of business," I think is the term the insurance industry uses.

When the state insurance commissioner stopped insurance companies from canceling policies in the Lava Zones 1 and 2 covering much of lower Puna when lava flows threatened in 2014, there was nothing in state law that prohibited insurance companies from NOT RENEWING policies. And more than Zones 1 and 2 are being impacted by the eruptive activity still moving into Puna.

For long-time policy holders as well as the insurance companies themselves, a six-month moratorium as passed in a Senate bill puts the home or business owners at serious financial risk and creates an administrative burden for the insurance companies. If insurance companies don't renew policies currently on their client list even for six months, financial institutions could call in our mortgages as the mortgages require insurance coverage for the properties. This would be catastrophic economically for family homeowners, Puna businesses and mortgage lenders!

Real estate brokers have testified before the Hawaii County Council that denying insurance coverage in lower Puna totally devalues approximately half a billion dollars' worth of real property. Those are our homes and businesses and they may be worthless to the outside world but many residents here are retirees and these homes represent our lifelong investment as well as being the only roof we've got over our heads! Puna also has a large Hawaiian population, some of whom have lived in Puna for generations and built their homes through self-help programs.

14-850 Flower Road

(PO Box 215)

Pahoa, HI 96778

LATE TESTIMONY

February 17, 2015

Hawaii State Legislature

Most Honorable Representatives,

In my humble opinion, this bill does not go far enough as it does not include insuring homes bought after January, 2014, of which my home is one. While I understand the risk both from lava and from being cut off from the rest of the Big Island by road should lava cover the main roadways, I still had enough faith in the Government of Hawaii to ensure that they would do whatever is necessary to keep the roads open for those of us in the Pahoa area. I do not understand why you are not compelling insurance companies to issue insurance to those of us who have purchased or build uninsured homes in this area, even with a clause denying coverage for direct damage from lava or a lava flow. I certainly accept the risk associated with damage from a lava flow that directly burns or otherwise damages my home, should such an unlikely event occur, I would like to be able to insure my home so that I can rest easy should damage from other causes, including break-in or fire (not lava related) occur. This would also increase the value of my home as I would be able to sell it, should we decide to move from here, as an insured and insurable home.

Please add a clause to mandate insurance for those of us who have bought or build our homes in this beautiful section of the Big Island of Hawaii, a section you have lavished funds into for development and public services, so that we can rest easy knowing our homes are insured for fire, theft and casualty not related to direct lava damage. I still believe the Hawaiian State Government supports us here in Pahoa and in Puna in general, and would hate to feel abandoned by my state government.

Thank you so much for your attention. I will be following this bill in the days to come!

Aloha,

Bob Farrell

Hawaiian Shores Community Association

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LATE TESTIMONY

Feb. 16, 2016

To: Committee on Consumer Protection and Commerce – House of Representatives
Chair Angus McKelvey
Hearing; Feb. 17, 2016 @ 2PM

RE: HB 370 – Relating to Insurance

Aloha Committee Chair and Members,

We appreciate that you have scheduled this measure for hearing and support this legislation. It is our understanding from working with Representative San Buenaventura that this legislation must be passed in order to correct legislation passed last year as a result of a moratorium placed on HPIA insurance policies due to the June 27 2014 lava flow that began to approach the densely populated subdivisions of the Puna district on the Big Island. Due to that event, there has been a higher than normal rate of property owners who have recently sold their properties in the area, meanwhile others are anxious to relocate to this area. These transactions continue to be hindered by market failure in the insurance market and this bill attempts to provide relief for those issues.

Our community consisting of 1294 residential lots **strongly encourages support** of this bill which is needed to ensure economic recovery in Puna which was severely hit by both a fierce tropical storm of nearly hurricane strength (Iselle) and threatened by lava in the second half of 2014.

Sincerely,

Eileen O'Hara

Eileen O'Hara, President
Board of Directors, Hawaiian Shores Community Assn.