

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

February 9, 2015

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RE: SB 589, Relating to Insurance - NAMIC's Written Testimony for Committee Hearing

Dear Senator Baker, Chair; Senator Taniguchi, Vice Chair; and members of the Senate Committee on Commerce and Consumer Protection:

Thank you for providing the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to your committee for the February 11, 2015, 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 1,400 NAMIC member companies serve more than 135 million auto, home and business policyholders and write more than \$196 billion in annual premiums, accounting for 50 percent of the automobile/homeowners market and 31 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's members appreciate the importance of insurance consumers being able to procure insurance in a timely manner and the convenience associated with a policyholder being able to renew their insurance policy with their current insurer. Like all business endeavors, insurance companies strive to retain their current client base. In fact, it is one of the keys to success for a business. However, since insurance is a contractual risk-sharing relationship, insurers and consumers need the contractual freedom to determine how best to handle risk of loss exposure. Therefore, NAMIC is opposed to SB 589, because it would inappropriately interfere with the

contractual rights of the parties to the insuring agreement, i.e. the right to decide whether or not to continue to share risk of loss exposure with the other contracting party.

NAMIC is concerned with SB 589 for the following reasons:

1) Although SB 589 may sound pro-consumer protection, it actually would be detrimental to insurance consumers, because insurance rates are based upon both the risk of loss exposure of individual consumers and the aggregate risk of loss exposure of all insurance consumers underwritten by the insurer. Therefore, insurers need the flexibility to continually evaluate whether a particular policyholder's risk of loss exposure would be detrimental to the aggregate group of the insurer's policyholders. SB 589 would prevent insurers from engaging in this reasonable and necessary risk management activity; thereby, creating an insurance rate cost driver that could adversely impact insurance rates for all of the insurer's policyholders.

2) The proposed legislation will create a disincentive for insurance consumers to engage in reasonable and appropriate risk of loss prevention and mitigation activities. Human nature and the hectic life we all lead often prevents people from doing what they "need to do" without a little incentive. Consequently, some insurance consumers don't engage in necessary risk of loss prevention and mitigation unless they are forced to do so over concern that their insurer will not accept the continuing or increased risk of loss exposure and renew their insurance policy.

Since SB 589 prevents an insurer from not renewing the policyholder, even if the policyholder's behavior significantly increases their risk of loss exposure beyond acceptable insurance company limits, unless the policyholder fails to pay the "undisputed" (whatever that legally means) insurance premium, there is no financial incentive for the policyholder to undertake necessary repairs of their home. In effect, the proposed legislation rewards irresponsible risk management behavior, and punishes responsible risk management behavior, because the low risk of loss exposure policyholder may end up having to subsidize the rates of the policyholder who don't properly maintain their home in a safe manner.

For the aforementioned reasons, NAMIC respectfully requests that the Senate Committee on Commerce and Consumer Protection "**VOTE NO**" on SB 589, because insurance consumers and society, in general, benefits from responsible risk management behavior not irresponsible behavior.

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,



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