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10/21/03
Date

2003 SENATE TRANSPORTATION

SB 2263

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2263

Senate Transportation Committee

Conference Committee

Hearing Date 1-31-03

Tape Number	Side A	Side B	Meter #
1	X		1880-4115
1		X	1175-1674

Committee Clerk Signature *Mary K Monson*

Minutes:

The hearing on SB 2263 was opened by **Chairman Senator Thomas Trenbeath**.

Senator Mutch: (District 19) Introduced SB 2263.

Rob Hovland: (Chairman of the ND Domestic Insurers Association) See attached testimony in favor of SB 2263.

Senator Taylor: Is there a standard schedule on how a deferred loss is paid out?

Rob Hovland: On an average most companies pay 50% of the loss up front and the remaining 50% is paid upon completion of the repairs.

Senator Trenbeath: (Meter 3000) A person has a house in a rural area that costs \$50 000 to replace and is worth \$5,000 and it burns down. The insured decides to take the insurance money and move into a larger city. He gets 50% or whatever the policy of the company is at the time?

Rob Hovland: That's right.

Senator Trenbeath: And that is reflected in the premium he pays?

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Bill/Resolution Number SB 2263
Hearing Date 1-31-03

Rob Hovland: Some companies it is. The companies that loaded up on the front don't use the deferred loss.

Senator Trenbeath: (Meter 3130) Concerned with consumer benefit. If a person is paying premium based on \$50,000 and will only collect 50% if he picks up stakes and goes elsewhere there should be some consideration in setting the premium rate.

Rob Hovland: That's a valid point. There's no question it is factored into the premium.

Without having the deferred loss option, the premium will be higher because it poses additional risk.

Senator Trenbeath: Fire losses seem to take forever to settle.

Rob Hovland: It usually is not the structure that is the issue but the personal property that is involved. The lists and proof take time.

Larry Maslowski: (ND Insurance Department) (Meter 3355) Neutral. Consumer benefit is fundamentally why this law is in place. The consumer sits down with the agent, determines the value of his property and insures for that value. The policy is issued with that face amount and premium is paid. If there is a total loss the company would have to pay the face amount. That is considered the Value Policy Law. The proposed changes to Section 2 is the section that would amend the value policy total loss provision allowing for deferred payment. Section 1 language deals with partial loss.

Senator Trenbeath: Cited a situation where a person bought a house at a foreclosure sale with the intent of fixing it up and renting it. He insured the property and a week later it burnt. He was paid the face value of the policy. Under this bill would that change? He bulldozed the house and the lot is for sale.

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Senate Transportation Committee
Bill/Resolution Number SB 2263
Hearing Date 1-31-03

Larry Maslowski: It would change if the insurance company under this law put that language in their policy.

Senator Taylor: Would the insured still have the option of agreeing to a deferred loss schedule?

Larry Maslowski: If this was passed, they might, but they would have to shop around.

The hearing on SB 2263 was closed.

(Side B Meter 1175) Discussion by committee members. There was some concern to letting the insurance companies dictate to the insureds where they can rebuild after a total fire loss. The feeling was that it should be a personal decision and the homeowners should have more options.

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2263

Senate Transportation Committee

Conference Committee

Hearing Date 2-6-03

Tape Number	Side A	Side B	Meter #
2	X		5960-end
2		X	0-190

Committee Clerk Signature

Mary K Monson

Minutes:

Chairman Senator Thomas Trenbeath opened SB 2263 for discussion.

Discussion indicated a feeling that if a house burns down the insured should get the money even if he decides on rebuilding at a different location.

Senator Espegard moved a **Do Not Pass**. Seconded by **Senator Taylor**.

Discussion concerning the underwriting responsibilities of agents and/or companies. It seems like the responsibility is being shifted back to the owner.

Roll call vote 5-0-1. **Passed**. Floor carrier is **Senator Espegard**.

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12/21/03

Date

Date: 2-6-03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2263

Senate TRANSPORTATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Senator Espgaard Seconded By Senator Taylor

Senators	Yes	No	Senators	Yes	No
Senator Thomas Trenbeath, Chair	✓		Senator Dennis Bercier	✓	
Senator Duaine Espgaard, V. Chair	✓		Senator Ryan Taylor	✓	
Senator Duane Mutch					
Senator Dave Nething	✓				

Total (Yes) 5 No 0

Absent 1

Floor Assignment Senator Espgaard

If the vote is on an amendment, briefly indicate intent:

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REPORT OF STANDING COMMITTEE (410)
February 7, 2003 7:44 a.m.

Module No: SR-24-1933
Carrier: Espegard
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2263: Transportation Committee (Sen. Trenbeath, Chairman) recommends DO NOT PASS (5 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2263 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SR-24-1933

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2003 TESTIMONY

SB 2263

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TESTIMONY FOR SENATE BILL 2263

My name is Rob Hovland. I am currently serving as Chairman of the North Dakota Domestic Insurers Association, which is comprised of 10 insurance companies that have a home office in North Dakota. The domestic companies that write property and casualty insurance are Dakota Fire, Farmers Union, Nodak Mutual, Hartland Mutual, and my employer, Center Mutual. We support Senate Bill 2263.

The North Dakota property and casualty industry has sustained enormous losses over the past ten years. For example, from 1991-1995, the industry had a 151% loss ratio in homeowners' insurance – meaning for every dollar in premium collected, \$1.51 in losses and expenses were incurred. From 1995-2000, the loss ratio was approximately 175%. In 2001, the loss ratio is estimated to be 350%. As a result, several companies have quit writing insurance in our state, some companies have discontinued writing certain lines of insurance, and probably all companies have significantly tightened their underwriting guidelines. A "hard market" has resulted – not from the perspective of insurance companies, but from the consumers' standpoint. Rates have increased dramatically, and in some areas, availability has become an issue.

To put this in perspective, so many insurance companies have left our state or quit writing insurance, that the House IBL Committee recently recommended passing a Bill which requires that in the future, companies must notify the Insurance Commissioner before they walk out the door or quit writing. In another Bill proposed by the Insurance Commissioner's office, they are asking the Legislature to give them the power to put a program in place that would force companies to accept insurance if the property and casualty market deteriorates further, and affordable insurance is no longer available.

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The fact that these types of Bills are being proposed and considered shows the seriousness of the problem and the recognition that a potential crisis is looming.

The North Dakota Domestic Insurers have put extensive effort into coming up with possible solutions to avoid this type of crisis from happening. We have identified problem areas, and put together a package of Bills intended to make our state a more attractive place to write. We have also tried to find alternatives to premium increases.

Currently, there are a limited number of companies willing to write property insurance in the more rural areas of North Dakota, particularly for houses that are not occupied by the owner. A significant problem with rural housing is that the cost to rebuild a house, known as the "replacement cost," is substantially higher than the "market value" (sale price). These houses present a special hazard and are more likely to incur losses. For example, some people would rather have their house burn, and collect the insurance proceeds, than sell it for a fraction of its replacement value. Consequently, many companies either refuse to, or are reluctant to insure them.

One solution is to allow "deferred loss payment" of claims, which means an insurance company may pay a percentage of the loss immediately, and the remainder if and when the house or other insured building is rebuilt at the same location. Deferred loss payment is a practice that has been used in North Dakota for several years, but there is some question as to whether the policy language providing for its use is enforceable. This Bill would make deferred loss payment contract language enforceable.

Some question why companies don't insure for less than replacement cost. The reason is that most losses are partial losses (it is estimated that approximately 70% of all claims are related to the roof). If a house is insured for substantially less than its

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replacement cost, there isn't enough premium collected to cover the exposure relating to partial losses. Consider the following example:

An insurance company charges \$200 to insure a \$20,000 dwelling, and \$500 to insure a \$50,000 dwelling. On average, it costs substantially more to replace a \$50,000 building's roof, as opposed to a \$20,000 building. If the company insures the \$50,000 dwelling for \$20,000, only \$200 in premium will be collected, but if the roof gets hailed out, the company will pay to replace the more expensive roof on the \$50,000 building.

Some companies address this problem by loading the bulk of the premium charged into the lower levels of insurance, but this results in a consumer with a lesser-valued dwelling paying a higher premium. In the example given, the company may charge a premium on the \$20,000 dwelling equivalent to a \$35,000 home (\$350). Although this is one method to address this problem, we believe that it is more equitable for a consumer to agree to a deferred loss payment, than be forced to pay the additional premium.

We would urge a Do Pass Vote on this Bill.

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