

SENATE BILL REPORT

SB 5527

As Reported by Senate Committee On:
Business, Financial Services & Trade, January 27, 2022

Title: An act relating to adding sublimits of coverage to an insurance policy's declaration page.

Brief Description: Adding sublimits of coverage to an insurance policy's declaration page.

Sponsors: Senators Wellman, Kuderer, Frockt, Nobles and Wilson, C..

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/13/22, 1/27/22 [DPS].

Brief Summary of First Substitute Bill

- Requires a statement to be included on the declarations page of residential insurance policies regarding sublimits of coverage.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Majority Report: That Substitute Senate Bill No. 5527 be substituted therefor, and the substitute bill do pass.

Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Dozier, Ranking Member; Brown, Frockt, Lovick and Wilson, L.

Staff: Kellee Gunn (786-7429)

Background: The Insurance Contract. An insurance policy is a contract between the insured and the insurance company and establishes what the company agrees to do in exchange for the premium paid by the insured. The contract also describes the insured's responsibilities and general terms of coverage. The contract is divided into a declarations page and the policy itself.

The Declarations Page. The declarations page, commonly referred to as a "dec sheet,"

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includes basic details of the insurance contract and typically includes the policy number, the effective dates, the address of the insured property, the mortgage holder, the coverages, coverage limits, the premium, and any discounts.

The Insurance Policy and Limits of Coverage. The insurance policy is the entire insurance contract, and includes the insuring agreements, definitions, and conditions. For a homeowner's insurance policy, a description of the property coverage and the loss it covers, as well as liability coverage, will be provided. There may be an exclusions section of the policy, which outlines specific coverages or perils not covered by the policy. Typically flood and earthquake coverage are excluded from homeowners and renter's policies unless purchased as an endorsement or rider. An endorsement or rider addresses issues or items not in the original contract and can be added to a homeowner or renter's policy, life insurance policy, or auto insurance policy.

Insurance policies may also have limits of coverage providing the insured the largest dollar amount covered for different types of losses, and sublimits which further limit that coverage. For example, a policy may have a dollar limit for personal property, with an additional limit within that amount for certain items, such as computers.

Summary of Bill (First Substitute): The declarations page on residential policies must include a statement that the policy may limit the amount of coverage available for certain losses, and the insured should review the policy carefully. The entire declarations page must be delivered to the insured at every policy renewal. Surplus lines insurance policies are exempted from this requirement.

Residential policies include homeowners, renters, condominium, mobile home, and manufactured home personal insurance policies.

EFFECT OF CHANGES MADE BY BUSINESS, FINANCIAL SERVICES & TRADE COMMITTEE (First Substitute):

- Requires each residential insurance policy's declarations page to include a statement that the policy may limit the amount of coverage available for certain losses, and the insured should review the policy carefully.
- Removes requirement that the declarations page include all sublimits of coverage.
- Exempts surplus lines insurers from being required to include the statement on the declarations page that the policy may include sublimits of coverage.
- Makes language changes for clarity.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This is contract law, which is not easy for the average person to understand. I had a loss, a landslide, and I was not covered. I could afford to cover my loss, but many insureds would not be able to. And many insureds would not be able afford to sue to get covered. Only a lawyer could understand these contracts. Sublimits in insurance policies are different between policies. Many consumers are not informed that there are lower limits for different circumstances and items. Including sublimits on the declarations page will provide transparency to consumers. This would especially help when consumers purchase insurance online. The OIC suggests making a couple of changes, including a later enactment date, allowing OIC to do rule making, and excluding surplus lines.

CON: Our organization provides information to consumers about understanding their insurance policies. We believe this bill will add costs to insurers which would then be passed on to consumers. The declarations page will become a mini version of the policy itself. This is the wrong approach. The declarations sheet is supposed to be a summary. The sublimits portion in my own homeowners policy is much longer than the declarations sheet itself. If all those items were listed in the declarations sheet, it would only add confusion to the policy holder. The purpose of the declarations sheet is to be a summary of what the policy provides. It is very broad and intended to be readable to a policy holder. Just like a bill report provides a summary of a bill, a declarations sheet provides a summary of an insurance policy.

Persons Testifying: PRO: Senator Lisa Wellman, Prime Sponsor; Mark Dietzler, Office of the Insurance Commissioner.

CON: Kenton Brine, NW Insurance Council; Jean Leonard, WA Insurers, NAMIC, Nationwide Insurance, and State Farm Insurance; Mel Sorensen, American Property Casualty Insurance Assoc.

Persons Signed In To Testify But Not Testifying: No one.