

SENATE BILL REPORT

SB 5720

As Reported by Senate Committee On:
Business, Financial Services, Gaming & Trade, February 16, 2023

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

Brief Description: Concerning risk mitigation in property insurance.

Sponsors: Senator Stanford.

Brief History:

Committee Activity: Business, Financial Services, Gaming & Trade: 2/14/23, 2/16/23 [DPS].

Brief Summary of First Substitute Bill

- Allows insurers to provide certain goods and services intended to reduce the probability of loss as part of a commercial property insurance policy.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Majority Report: That Substitute Senate Bill No. 5720 be substituted therefor, and the substitute bill do pass.

Signed by Senators Stanford, Chair; Frame, Vice Chair; Dozier, Ranking Member; Boehnke, Gildon, Hasegawa, Lovick, MacEwen and Mullet.

Staff: Kellee Gunn (786-7429)

Background: Risk Mitigation in Property Insurance. Except for commercial property insurance policies, property insurance may provide goods and services intended to reduce the probability of loss as part of the insurance policy. The following goods and services may be provided with the prior approval by the Office of the Insurance Commissioner (OIC):

- goods, including a water monitor;

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.

- 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 OIC may identify in rule.

Information on the goods and services must be specified to OIC in the rate filing, and the filing must demonstrate its rate accounts for its expected costs and reduction in claims. In any 12-month period, the value of the goods and services cannot exceed a total of \$7,500.

Except for commercial property insurance policies, a property insurer may also conduct a pilot program as a risk mitigation strategy, in accordance with rules adopted by OIC. The insurer conducting the pilot program is not required to include information on the goods and services intended as risk mitigation or prevention in the rate filing. The pilot program may not last longer than two years. These goods and services do not constitute a violation on illegal inducements or rebates.

Summary of Bill (First Substitute): Removes the exclusion on commercial property insurance, allowing commercial property insurance policies to provide up to \$7,500 total per 12-month period in certain goods and services to reduce the probability of loss. Certain information on the costs and reduction in claims relating to the goods and services provided must be included in its rate filing to the OIC.

Commercial property insurers may conduct a pilot program as a risk mitigation strategy, in accordance with rules adopted by OIC, that may not last longer than two years.

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

- Increases the statutory limit of goods and services provided by an insurer for risk mitigation from \$1,500 to \$7,500, aligning it with current rule.

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: Several years ago, the Legislature allowed residential property insurers to provide value added policies to policy holders as part of a risk mitigation strategy. This bill allows commercial property insurers to provide the same value-added policies to their policy holders. Our association has been working

closely with the OIC on this legislation. We found allowing property insurers this risk mitigation good and services to their insureds will help reduce the frequency and severity of insurance claims. This will help insureds reduce costly claims for commercial properties. The cap of \$1,500 in the 2018 legislation has been raised to \$7,500 in rule making two years ago. There will be an amendment to align the cap in statute with current OIC rule.

Persons Testifying: PRO: Senator Derek Stanford, Prime Sponsor; David Forte, Office of the Insurance Commissioner; Mark Sektnan, American Property Casualty Insurance Association.

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