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Alaska State Legislature
Senate Committee on Finance

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Submitted electronically to: Senate.Finance@akleg.gov

RE: SB 132, Omnibus Insurance Bill - NAMIC's Written Testimony

Thank you for affording the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to the Senate Committee on Finance for the public hearing on SB 132, Omnibus Insurance Bill.

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 40 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write nearly $225 billion in annual premiums.

NAMIC is supportive of the technical revisions and regulatory update provisions in the bill and appreciates the Director's continuing efforts to assist insurers in their efforts to address evolving insurance consumer needs. NAMIC expressly incorporates by reference its written testimony submitted to the Senate Committee on Commerce and Labor, which sets forth our position on the consumer benefits associated with the long-standing practice of insurers providing consumers with the option of purchasing a full replacement cost coverage policy (Replacement Cost Value or RCV Policy) or an "economic value" coverage policy (Actual Cash Value or ACV Policy).

NAMIC recently had a productive meeting with Director about the inclusion of a "Sec. 21.60.030. Depreciation of Labor" in SB 132 and intent to ensure consumers understand the coverage provided when purchasing an ACV policy. Although we believe the RCV policy provides consumers with an insurance product option that addresses the concerns raised by the Division of Insurance, NAMIC understands the Director's desire to address how depreciation should be applied in the settlement of a claim. NAMIC looks forward to further addressing this issue and the distinctions between an ACV and RCV policy via the regulatory process.

The primary intent of this written testimony is to correct for the legislative record a number of inaccurate statements and confusing comments made by United Policyholders in its Letter of Support on the House version of this bill, HB 148.

First, United Policyholders incorrectly states, *"[w]hen insurers reduce claim payouts by depreciating the cost of labor, they fail to indemnify their insureds by failing to cover the full costs of restoring property to pre-loss condition."* Insurers provide consumers with the contractual coverage stated in the insuring agreement that is approved by the Division of Insurance. An ACV policy by its design and contractual language provides coverage for the property based on its value at the time of loss. It is not intended to “restore” the property to its pre-loss condition. The insurance consumer is provided with the opportunity to purchase, at a higher premium cost, a RCV Policy which does provide insurance coverage that “restores” the consumer to their pre-loss condition.

Second, United Policyholder states in its letter, *“[m]ost insurance companies do not depreciate labor when calculating property loss values because, unlike physical materials, labor does not lose value over time*.” This statement is deceptive, because it doesn’t distinguish between ACV and RCV policies. Generally speaking, ACV policies do not include the cost to restore property to the pre-loss condition, either through repair or replacement. RCV policies, the type of policy purchased by most consumers, provides coverage for the undepreciated replacement cost when the consumer complies with the terms of the insuring agreement. Moreover, the assertion made by United Policyholders that “*labor does not lose value over time*” is inconsistent with recognized financial practices throughout the business world. Specifically, the IRS expressly recognizes depreciation of labor, as do a number of major financial services industries, like the accounting industry and the real estate appraising industry.

The overwhelming majority of state departments of insurance, state legislatures, and court decisions across the country recognize that insurers may properly apply depreciation to estimated labor costs, particularly when the policy expressly permits. In fact, in 2017, the Arkansas legislature passed legislation expressly approving the practice (Ark. Code § 23-88-106 (2017).)

NAMIC’s members are concerned about taking away consumer choice and creating unnecessary insurance-rate cost drivers for consumers. In today’s inflationary world, consumers are mindful of their financial budgets and want state regulators to protect them from avoidable price increases. Consequently, protecting the current RCV and ACV coverage distinction and respective pricing structure is clearly beneficial to 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,

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