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Alaska State Legislature
Senate Labor and Commerce Committee
120 E. 4th St., Juneau, AK 99801

2/21/13

Sent via electronic transmission to: Dana.Owen@akleg.gov

RE: SB 58, Right to Cancel Entirely Abandoned Property that Increases a Hazard Insured Against - NAMIC's Written Testimony in Support of Proposed Legislation

Dear Senator Dunleavy, Chair; Senator Micciche, Vice-Chair; and members of the Senate Labor and Commerce Committee:

Thank you for providing the National Association of Mutual Insurance Companies (NAMIC) an opportunity to submit written testimony to the committee for consideration. NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders and writing in excess of \$196 billion in annual premiums that account for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies. NAMIC has 85 members who write property and casualty insurance in the State of Alaska, which represents 41% of the marketplace.

SB 58 states:

Section 1. AS 21.36.210 (f) is amended to read: 5 (f) An insurer may not exercise its right to cancel a policy of personal insurance other than personal automobile insurance, except for the following reasons:

(6) entire abandonment of the property that increases a hazard insured against; if a policy is cancelled under this paragraph, in addition to the notice required under AS 21.36.220, the insurer shall give notice of cancellation of the policy to a lender on file with the insurer at the time of the cancellation; in this paragraph, "entire abandonment" means the property is no longer occupied by the insured as defined by the policy and does not have contents of substantial utility; however, property is not entirely abandoned if the insured or an agent for the insured demonstrates that the property is being reasonably maintained and monitored for a condition that might cause damage to the property.

On behalf of NAMIC's members, we respectfully support this pro-insurance consumer, pro-contractual rights, and pro-public safety legislation for the following reasons:

1) **SB 58 is pro-insurance consumer**, because current law prevents insurers from being able to engage in a common-sense underwriting practice that is necessary and beneficial to the insurer's collective of policyholders, i.e. cancel a policy on an entirely abandoned property, if the abandonment increases the risk of loss exposure to the insurer and the insurer's policyholders.

NAMIC's members are mutual insurance companies, so their policyholders are the direct owners of the insurance company. Therefore, if the insurer is unable to cancel a policy that create an unnecessary and unreasonable risk of loss exposure for the insurer, the insurance company's policyholders end up being saddled with this liability burden, via higher insurance rates and/or reduced professional services from the insurer.

In effect, all of the insurer's policyholders are forced to pay the cost of insuring an abandoned home, one that may have liability exposure concerns that exceed the standard underwriting guidelines of the insurer. Since policyholders, who haven't abandoned their homes have to comply with standard insurance underwriting guidelines, so should policyholders who abandon their home.

2) **The proposed legislation is pro-contractual rights**, because it will provide insurers with the option of being able to cancel a homeowner's insurance policy on an entirely abandoned home if the abandonment increases the risk of loss exposure beyond what was agreed to by the insurer and policyholder at the time the insuring agreement was negotiated by the parties. When a policyholder abandons property that was supposed to be, pursuant to the terms of the contract, actively occupied and properly maintained, there has been a material breach in the terms of the contract, and under standard contract law the non-breaching party has the right to terminate the relationship.

When a policyholder entirely abandons the home, the homeowner has significant increased the risk of loss exposure, because there is no one around to properly safeguard the property and/or engage in standard risk of loss prevention activities that protect the home from damage. Since this new risk of loss exposure was never contemplated by the parties at the time they entered into the insurance contract nor was it agreed to by the insurer, it is only fair that the insurer be afforded the right to cancel said policy on the basis of standard contractual rights.

3) **SB 58 is pro-public safety**, because it will make it more difficult for policyholders to engage in the "moral hazard" of neglecting their abandoned property, because they have someone else (the insurer and its policyholders) footing the bill for the liability exposure created by the homeowner's abandonment of the property.

NAMIC believes that SB 58 is fair, equitable, and balanced in its approach to the cancellation of abandoned property, because it has a number qualifiers that are designed to protect the homeowner of the abandoned property: a) the property must be entirely abandoned; b) the abandonment must increase the liability risk to the insurer; c) the insurer must provide notice

of cancellation to the homeowner/policyholder and the mortgage lender of the pending cancellation; and d) the property will not be considered abandoned if the homeowner or his/her agent merely demonstrates that it is being properly maintained and monitored for risk exposure

Almost every other state in the nation has a statute that allows for cancellation for property abandonment that increases risk of loss exposure to the insurer, so SB 58 is consistent with the national trend.

For the aforementioned reasons, NAMIC respectfully requests that committee members VOTE YES on SB 58.

Thank you for your time and consideration of NAMIC's written testimony. Please feel free to contact me at 303.907.0587 or at crataj@namic.org, if you have any questions pertaining to my written testimony.

Respectfully,

A handwritten signature in black ink, appearing to read "Christian J. Rataj". The signature is fluid and cursive, with the first name "Christian" and last name "Rataj" being the most prominent parts.

Christian J. Rataj, Esq.
NAMIC's Western State Affairs Manager