

March 31, 2017

Members of the Oklahoma Senate Retirement and Insurance Committee
The Oklahoma Capitol
Oklahoma City, Oklahoma

via email

RE: NAMIC's Opposition to HB 1720

Key Points of NAMIC's Concerns:

- HB 1720 is a government mandated discount which does not reflect a free market approach.
- Insurers already offer discounts for disaster resilient features like hail resistant shingles – without a government mandate. The free market should decide the amount of the discount.
- Legislation like this could have a chilling effect on future collaborative efforts by insurers to develop new disaster resistant technologies.

Members of the Senate Retirement and Insurance Committee:

We appreciate the opportunity to register our opposition to HB 1720.

The National Association of Mutual Insurance Companies (NAMIC) is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 39 percent of the total market. In Oklahoma, we represent 145 member companies doing business here, including six companies domiciled in Oklahoma, comprising 42 percent of the overall insurance market.

Our opposition stems from the central purpose of the bill: **HB 1720 would create a government-mandated insurance discount for building a home to certain standards, including the FORTIFIED™ standards set by the Insurance Institute for Business and Home Safety.** NAMIC opposes government mandated discounts in insurance premiums, preferring the free market determine the best discount, if any.

Like many others in the industry, NAMIC is a strong supporter of the Insurance Institute for Business and Home Safety (IBHS). As the name of the organization implies, the insurance industry has committed significant resources to IBHS to develop life safety and disaster mitigation best practices. **Notice IBHS makes their insurance industry-funded research and recommendations available to anyone – free of charge – who is interested in building a storm resistant home or business.**

In fact, my wife and I are currently building a home to FORTIFIED™ Gold standard for wind and hail resistance. We expect the building standards and material choices stemming from our decision will help us save money in terms of premium and reduced likelihood of having to pay a claim deductible after a storm. I am personally a big believer in the work IBHS does.

Why does NAMIC oppose this bill?

The industry is hesitant to offer government mandated insurance discounts based upon meeting a particular home construction standard. We believe the free market should determine that discount, if any – not the state regulator.

Insurers can only offer a discount – mandatory or not -- when there is a way to calculate it. That requires claims experience, which means there have to be:

- a) A number of homes built to the resiliency standard, and
- b) A sufficient number of severe weather events where the homes are built

in order to soundly determine whether the standards will justify a premium discount.

If more people start building FORTIFIED™ homes in Oklahoma, and homes built to those standards withstand tornado and other severe weather perils, we would then expect to see data develop to help determine the reduced risk that a FORTIFIED™ home presents to an insurer. In that situation, many insurers will want to offer a discount where there's one justified. But to try to incentivize it by requiring a discount in the absence of that type of hard data is contrary to the principles of insurance.

If Alabama did it, why can't Oklahoma?

One of the message points we've heard about this bill is that since Alabama has enacted similar legislation, Oklahoma should do the same. We should point out just a year after the Alabama legislature passed a bill mandating statewide discounts, the Alabama Department of Insurance issued a regulatory bulletin setting benchmarks for discounts. This bulletin required

insurers who file discounts less than the government mandated amount to submit “detailed actuarial justification for the proposed discounts” and that the filing “is subject to review and prior approval” by the Department of Insurance.¹

We are concerned that insurers doing business in Oklahoma will face a similar challenge from the regulator in the future.

But didn't the IBHS standards come from the insurance industry?

According to the IBHS website, “The Insurance Institute for Business & Home Safety (IBHS) is an independent, nonprofit, scientific research and communications organization supported solely by property insurers and reinsurers. IBHS’ building safety research leads to real-world solutions for home and business owners, helping to create more resilient communities.”²

The fantastic results from IBHS are due in large part to the financial contributions of the insurance industry pooling its resources to develop lifesaving and property protecting best practices. **HB 1710 would force insurers to offer discounts using the best practices that the insurance industry paid to have developed.**

As a result, we are also concerned about the precedent such legislation sets when it comes to conducting further research on these issues. It seems counterproductive for insurers to fund research to develop best practices, only to have the government then mandate insurers offer discounts based upon the best practices insurers spent money to develop. Government agencies should be encouraging such private sector investment into new technologies rather than penalizing the private sector for creating them.

So what's the solution?

The solution involves creating a culture where resilient construction features take their place alongside other home amenities sought by homebuyers. Currently, homebuyers in Oklahoma can build disaster resistant housing, using IBHS standards or more robust building codes. Instead of mandating discounts for IBHS certification, we would suggest the Oklahoma Insurance Department do an outreach to builders and building code enforcement to help educate the public on the life safety benefits of meeting IBHS standards. Building a disaster resistant home decreases the chance the homeowner will incur a deductible, or pay as much of a deductible, after a storm.

¹ Bulletin No. 2016-07, State of Alabama Department of Insurance, October 31, 2016.

² <https://disastersafety.org/about/>

This is well demonstrated by the growing trend of using hail impact resistant shingles on homes in Oklahoma. **Despite the fact there is no government mandated discount, insurers offer meaningful discounts to homeowners who replace their roofs with impact resistant shingles.**

These shingles save consumers money in two ways:

- They get a discount from their insurance company for installing the impact resistant shingles; and
- They reduce the likelihood of having to pay a deductible after a hail storm.

In short, the free market established these deductibles when innovations in roof technology allowed more consumers to afford impact resistant shingles. This, in turn, allowed insurers to determine there was sufficient data to actuarially justify a premium discount for installing these shingles.

Freedom to innovate, to create data, and to write insurance products accordingly is in Oklahoma's best interest. We would submit the free market will get us there faster than a government mandate.

We urge the committee to vote NO on HB 1720.

Please feel free to let me know if wish to discuss further.

Sincerely,

A handwritten signature in black ink, consisting of the first name 'Paul' and the last name 'Martin' written in a cursive style.

Paul T. Martin
Director – State Affairs