

TESTIMONY

PENNSYLVANIA ASSOCIATION of HEALTH UNDERWRITERS

Storage Unit Contents Insurance House Bill 1494, PN 1976

House Insurance Committee

March 11, 2014

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Mr. Chairman and members of the committee, for the record, I am Vince Phillips, lobbyist for the Pennsylvania Association of Health Underwriters (PAHU), an association representing insurance producers with expertise in health insurance and employee benefit programs.

The first question that some might ask is “Why are the health insurance agents interested in a property insurance bill?” Personally, I have some history in working to develop the producer licensing system we have now per Act 147 of 2002. I also worked on previous producer licensing legislation in the 1990s. My background includes lobbying for the former Independent Insurance Agents of PA from 1994-2002 and the PA Association of Life Underwriters 1989 to 1994. In addition to currently lobbying for the PA Association of Health Underwriters, I have a close relationship with marketing representatives working for PA Mutual Insurance Companies (P/C) although I am not a lobbyist for them, for their companies or for PAMIC. Each time licensing is raised as an issue, there is always the question about the integrity of the license itself. Who is deemed worthy of having an insurance license? Do they have a criminal past? Do they understand the product(s) they are attempting to sell? What products count as insurance, subject to this law? All of these questions boil down to one core question: Will consumers be protected by the Insurance Department when they buy insurance?

Is there a need? Does House Bill 1494 help consumers because there is a shortage of insurance for storage unit contents?

Homeowners’ insurance covers contents. This includes items in a storage unit although a policyholder should obviously read the policy and/or ask the agent to what extent property in a storage unit is covered. If Homeowners’ insurance coverage did not equal the value of property stored in a unit, for example, storing vintage furniture or antiques if settling an estate for a family member.

There is already a range of insurance options. In preparing for this testimony I spent 15 minutes on the Internet. Here is what I found:

- Nationwide Renters' Insurance (from their web site) "covers your belongings in an apartment, townhome, **storage unit**, dorm room or single family home" I checked. There are 42 Nationwide agents in or near Harrisburg.
- Renters Insurance (www.rentersinsurance.net/storage-contents-insurance.html) supplies bids from State Farm, Farmers, American Family, Unitrin, Travelers and Allstate. Their web site reads "A storage contents insurance policy will keep your belongings, called contents, safe and secure against losses." Allstate's quote was \$94.84 a year for \$20,000 personal property protection, family liability protection of \$100,000 per occurrence, guest medical protection at \$1,000 per person. It has a \$500 deductible.
- Ask any independent agent. Providing choices from different insurance companies is what they do. I want to provide a thank you to IA&B for also testifying on this bill.
- Other self-storage contents insurance based on my quick Internet search is available from:
 - Minico (Liberty Mutual) which offers zero dollars deductible coverage but which excludes deeds, bills, currency, evidence of debt, securities, jewelry, watches, precious stones, furs and garments trimmed in fur, and boats or vehicles. Minico is also known as TenantOne.
 - SafeStor self storage insurance (Repwest Insurance Company) specializes in self-storage insurance. \$15,000 of coverage costs \$24 per month
 - Propertyfirstgroup (info@propertyfirstgroup.com) is an agency in York, PA that specializes in self storage contents insurance.
- Incidentally, State Farm's claim 'like a good neighbor' certainly means that they are certainly in the neighborhood. I live in Hampden Township in Cumberland County. Mechanicsburg has four State Farm agents, Camp Hill 4, Wormleysburg 1, Dillsburg 1, Carlisle 4, Harrisburg 7. There are also 44 State Farm agents in Pittsburgh City and 38 in Philadelphia proper. You get the idea. Access to this

coverage is not the issue because people have access to insurance that covers contents of a storage unit already.

Does House Bill 1494 provide adequate consumer protection?

No. The public needs to purchase insurance in a regulated environment. A core mission of the PA Insurance Department is to protect consumers. Part of this revolves around the oversight of insurance marketing. There are a vast numbers of laws which do so – Act 205 (Unfair Insurance Practices), Act 40 of 1997 (banks in insurance), Act 154 (Life Insurance marketing), Act 40 of 2007 (Long-term care insurance), Act 14 (Suitability of annuities), and of course Act 147 of 2002, the Producer Licensing Law. Not all of these are P/C but certainly Act 205 and Act 147 specifically apply.

Unlicensed clerks with only a smattering of insurance training, amount not specified by HB 1494, will not know about what they can and can not do. I have listed 21 of the “thou shalt nots” in Act 147 in an appendix to this testimony. Insurance producers must take 24 hours of pre-licensing training including three hours of ethics instruction. Insurance producers must pass a test specific to the type of insurance they wish to sell (property, life, personal lines [homeowners, auto], casualty, surplus lines, property/casualty. HB 1494 does not have testing. There is no requirement for continued training in HB 1494 as there is for an insurance producer.

The underlying question is whether the contents insurance being sold from a storage unit facility is “important” enough to warrant a license or is it on the fringes such as credit insurance?

Most recently, the PA Insurance Department issued Bulletin 2013-09 on November 9, 2013 to provide clarity regarding activities that may require a producer license and those that do not. Among them is the stipulation that “Discussing or describing the specific coverages or terms of a proposed contract of insurance with a prospective policyholder”. In a storage unit situation, the customer may have questions about the coverage, its limits and exclusions. The clerk proffering this advice must be licensed.

Property insurance is not like a fast food place, asking if you want biggie fries with that. There are real world consequences for giving the wrong information. Proponents of the bill might say that this storage unit contents insurance is so straight forward that there is no reason to have a license. I respectfully disagree.

Some questions that customers may wonder about include: What are my policy limits? Is a Rolex watch in storage here covered? (No) Does the policy include 100% replacement cost? (It depends and likely will pay cash for what it worth if you were to re-sell the item unless coverage specifies full replacement) Is there liability coverage? (Usually) Are visitors covered? (Maybe) Are exotic, high-value contents covered? (No) Yet, the unlicensed clerk is promoting purchase of insurance for which he/she will be compensated and will not know the answers.

Loretta Worters, vice president of the Insurance Information Institute said “Your first call should be to your insurance agent to see if and how your personal possessions will be covered”. (www.bankrate.com/finance/insurance-stuffed-placed-in-storage.com) .

Act 147 says that a person must be licensed if he/she sells, solicits, negotiates a contract of insurance. Insurance agents are appointed by insurance companies to sell a particular insurance product. This appointment is in addition to the producer license requirement. It is an extra safeguard for the consumer since the insurer has a stake in making sure there are no problems at the retail end. It is also an extra tool for the Insurance Department to zero in on a specific agent who does not follow the laws governing the marketing of insurance. HB 1494 does not address company appointments.

Are there additional problems with House Bill 1494?

About the draft language specifically:

- The definition says that an owner is the “self-service storage agent” (Page 5) The owner would not necessarily be the seller. It would fall to his/her employees or others to actually place the insurance when they rent out the unit. Consumer harms result when customers are not properly informed re their coverage, limits

of coverage, etc. The actual seller is where the transaction takes place and that is where the insurance license is most needed.

- Regulating the numbers of these sellers of self storage facility insurance would take additional resources that the Department should dedicate elsewhere. Granted the Department could go after the owner if the unlicensed staff sells insurance, but do we really need to add more work to the Department given that their consumer services staff of 25 handles 100,000 contacts with the public per year including 15-20,000 actual complaints.
- Provision “making readily available” of material (Page 2-3) provides no consumer protection. It assumes that a 10 second handover of brochures or other written materials is enough to educate the customer about this specific insurance product, that the rental insurance may duplicate homeowner’s insurance property coverage, etc.
- Property insurance is difficult enough. Homeowner insurance customers sometimes have a reasonable (and sometimes unreasonable) expectation that their home and/or contents are protected from all risks such as flooding. Would the limited licensees even understand this exclusion assuming that a rental agreement excludes it? There is a very real harm to the consumer that comes from unqualified people selling insurance. A policyholder needs someone to adequately explain coverage versus just handing over a piece of paper to customers read at their leisure.
- Treatment of money places the limited licensee in a category not found in conventional insurance since a licensed producer has fiduciary responsibility. This proposal makes the limited licensees a favored class (no fiduciary responsibility). They do have a fiduciary responsibility since they sell the insurance and receive money for the transaction. They should be subject to the same rigors of professional liability as any other insurance producer. If you bundle the money for insurance and the unit into one transaction, the seller should be liable on all counts and should have the same fiduciary role as others.
- Does providing training include verification that the training was completed?
 - What sanctions are there to those not taking the training, yet still selling the insurance? The owners are not required to identify the retail clerks who are selling contents insurance, only specify the locations.
 - Who certifies training as valid? The Insurance Department or Prometric or the insurance carrier? Who certifies course providers – who certifies course instructors, sorry, “licensed instructor”? The language does not match the language in Act 147 regarding course provider, instructor and course approval.
 - How long should a course be? One hour? Four hours? Is there a test?
- There is no mention that I saw as to how the new license regulatory oversight will be funded. Presumably, there would be a license fee but it is not stated. Given the demands faced by the Department in many areas including the Patient Protection Affordable Care Act (PPACA), the General Assembly should not create an unfunded mandate.
- There appears to be nothing that requires that the rental unit company also have a license as well as its owner. In ‘regular’ licensing, an agency and the individual

must both be licensed and both appointed by a company in order to receive commissions.

Is House Bill 1494 sought by the storage unit industry needed because the industry is floundering financially?

It appears to me that the storage unit industry is looking for a short cut to additional profits. That is understandable for any line of business but it is noteworthy that the trade publication for the PA Self Storage Association (Vol. 9 Issue 2, 2012) ran an article “Ten Things I Can Do Today to Build My Business? Insurance did not make the list. Some of those which did include ‘Mention Moving & Packing Supplies in every sales presentation today’ and ‘Mention the Referral Program to everyone that pays their bill today’ and “Refresh your Signage”

I did some research as to profit margin for storage unit companies. According to Forbes February 10, 2011, mini-warehouses and self-storage units had an average pretax profit margin of 11% and ranked number 15 on the 20 Most Profitable Small Businesses List. This finding was based on Sageworks, a North Carolina accounting and private company data provider, which researched 300,000 companies between January 1, 2003 and January 1, 2011. (First were CPAs at 16.5% followed by chiropractors at 15.3% and Freestanding ambulatory surgical and emergency centers at 15%.) The Deavcon Group, a strategic capital business and management firm summarized profitability in a December 6, 2012 report: “The mini-storage or self-storage business has been and will continue to be a stable, growing industry with tremendous upside for profitability.”

My conclusion: They don’t need to sell insurance for their bottom line. They want to do this without paying for the necessary training and licensing for employees to have them legally sell contents coverage.

The storage unit industry already has the ability to make money from insurance sales if they are not licensed. Guidance offered by the Department following passage of Act 40 of 1997 addressed how referral fees may be paid to unlicensed entities by licensed insurance producers for personal lines (of which contents insurance is). There are rules of course. The referral fee cannot not be big and cannot be conditioned with a quote or a sale. It is paid for referrals, not whether or not there is a sale by the licensed agent. Some may already do this. When I rented a storage unit in York after my father-in-law passed away, there was an insurance solicitation on the counter where I could purchase contents insurance from a local independent insurance agency.

Conclusion

This proposal weakens the integrity of producer licensing This proposal sets a harmful precedent. In the health insurance arena, insurance producers want to be sure that Exchanges are marketed according to PA law i.e. using insurance producers to sell, solicit, and negotiate insurance. Passage of this rental unit limited license would give credence to those suggesting that Navigators could do what licensed producers do now and weakens overall consumer protections that come from a fully licensed and regulated profession.