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STATEMENT OF BRAD SMOOT  
LEGISLATIVE COUNSEL, THE AMERICAN INSURANCE ASSOCIATION  
HOUSE INSURANCE COMMITTEE  
REGARDING 2015 HB 2241  
February 16, 2015

Mr. Chairman and Members:

Thank you for this opportunity to comment on HB 2241 on behalf of the American Insurance Association. AIA is a trade group of more than 300 member insurance companies who write commercial, general liability, auto, home, life and workers compensation insurance in all 50 states. Our members include companies that are household names, employ thousands of Kansans and may even insure your family or business.

While we fully understand that no one would want to be cancelled or non renewed for any insurance or contractual arrangement, it is the nature of free markets and the right to contract that both buyers and sellers be allowed to terminate the contract in accordance with the contract terms. Homeowners certainly would insist on the right to cancel an insurance contract when they no longer need coverage, are unhappy with the service, obtain a better product or lower cost or any other reason. Likewise, insurers need the ability to cancel for non-payment of premium, fraud and claims experience in order to manage their business in a given state. It is quite simply a fundamental principle of the marketplace. For these and other reasons, our research has found no other state with a "lock in" statute similar to HB 2241.

In addition, "lock in" provisions like that proposed here have the unintended and anti consumer impact of discouraging insurers from entering the marketplace or taking on certain potential policyholders. If a carrier is "stuck" in the insurance contract forever regardless of the magnitude of the claims being made or the negative impact on the company, the carrier will obviously be less likely to write coverage as freely. Moreover, long-term "locked in" contracts tend to cost more because the carrier is assuming risk for an unspecified and extended period of time. Lock-in insurance contracts may increase costs for every policyholder, even those who never make a claim.

Finally, no one wants to have to shop for coverage. It's a hassle. That's why agents receive commissions to help with that. But we are blessed in Kansas to have a competitive market for business, home and auto coverage. Competing carriers treat weather losses differently in their underwriting and rating practices. Some carriers don't consider them at all. Some carriers are even advertising "accident forgiveness" to reflect the appeal of the argument made by the proponents of HB 2241. Now that is a marketplace response to the concerns presented here. Not a government one.

This Legislature has seen this type of bill from time to time. However, once your colleagues considered the unintended consequences, potential cost increases, adverse impact on the marketplace and the simple question of whether the government should interfere in an otherwise healthy market, such proposals have been rejected. If the market were failing large numbers of policyholders, if homeowners and business owners were unable to obtain coverage, if there was a crisis in the insurance market, then government action might be considered. I would suspect that the Kansas Insurance Department would sound the call for legislative action, although probably not this particular legislation. They would have data and other information to prove the need for government changes to the basic contract of casualty insurance. AIA does not believe there is such a crisis or need for further government involvement in the private insurance marketplace. In particular, we don't believe HB 2241 is necessary and that its enactment would do much more harm than good to your constituents.

Thank you for consideration of our views.