

SUBJECT: Cancelling new auto and homeowners insurance policies

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise
0 nays

WITNESSES: For — None
Against — Gerard Galvan, Farmers Insurance Group; Robert Watkins, State Farm Insurance Company

BACKGROUND : The Insurance Code allows insurers for any reason to cancel a personal automobile insurance policy during the first 60 days that the policy is in force. Insurers can cancel other policies for any reason during the first 90 days.

DIGEST: CSHB 1869 would prohibit insurers from canceling a personal automobile policy within the first 60 days or a homeowners or farm or ranch policy within the first 90 days because of a claim brought under the policy or an accident or other incident that occurred, regardless of whether the policyholder filed a claim.
CSHB 1869 would apply to policies delivered, issued for delivery, or renewed on or after January 1, 1998.

SUPPORTERS SAY: CSHB 1869 would ensure that consumers who change their auto or homeowners insurer would not have their policy canceled if they had an accident or filed a claim within the first 60 or 90 days of the new policy period. This common practice among insurers discourages consumers from switching policies, even though insurers and regulators alike encourage consumers to shop around for the best prices.
The decision about whether to provide coverage should be based solely on an applicant's past claims history, not on any claims made after the policy goes into effect. Insurers can and should check applicants' histories to

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determine whether they are good risks. Insurers that cover high risk categories do so for a price and with the knowledge that they may well have to cover a claim.

OPPONENTS
SAY:

CSHB 1869 would prohibit insurers from cancelling a policy for any incident that occurred after the first day the policy was in effect. For example, a company might find that a new policy holder had just been arrested for drunk driving. Investigating further, the company might find that the driver had a history of DWIs. Under CSHB 1869, the insurer could not cancel the policy because an “incident” had occurred. The prohibition against cancellation should apply only to claims made or unreported accidents.

NOTES:

Rep. Burnam plans to offer a floor amendment prohibiting insurers from cancelling a policy only if a claim was made or if the policyholder was involved in an accident.

The original version of the bill would have allowed insurers to cancel an auto or homeowners policy within the first 30 days of the policy period.