

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1398-01  
Bill No.: SB 445  
Subject: Insurance - Property; Housing  
Type: Original  
Date: April 11, 2013

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Bill Summary: This proposal requires homeowner insurance companies to offer sinkhole coverage.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Insurance Dedicated	Up to \$9,100	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>Up to \$9,100</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Economic Development - Missouri Housing Development Commission** assume there will be no fiscal impact to their agency.

Officials from the **Department of Insurance, Financial Institutions & Professional Registration (DIFP)** assume insurers would be required to submit amendments to their policies to comply with this proposal. Policy amendments must be submitted to the DIFP for review along with a \$50 filing fee.

Assuming 50% of Home Owners and Dwelling insurers make form and rate filings due to amendments:

183 Home Owners and Dwelling Fire Insurers (per 2011 Market Share report)  
 $183 * 50\% = 91 \text{ insurers} \times \$50 \text{ filing fee} = \$4,550 \times 2 \text{ (1 rate filing and 1 form filing)} = \$9,100$   
potential revenue.

Additional staff and expenses are not being requested with this single proposal, but if multiple proposals pass during the legislative session which require policy form reviews the DIFP will need to request additional staff to handle the increase in workload.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>INSURANCE DEDICATED FUND</b>			
<u>Revenue</u> - Policy Amendments	<u>Up to \$9,100</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND</b>	<b><u>Up to \$9,100</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

On or after January 1, 2014, every insurer authorized to write homeowners' insurance within Missouri shall make available, for an appropriate additional premium, coverage for sinkhole losses on any structure, including contents of personal property contained therein, to the extent provided in the policy to which the sinkhole coverage attaches. Sinkhole insurance coverage may be offered as part of the underlying insurance policy or as an endorsement or rider.

If a homeowner's insurance policy excludes coverage for sinkhole losses, the insurer must inform policyholders in bold type of not less than 14 points as follows:

**"YOUR POLICY DOES NOT PROVIDE COVERAGE FOR SINKHOLE LOSSES. YOU MAY PURCHASE ADDITIONAL COVERAGE FOR SINKHOLE LOSSES FOR AN ADDITIONAL PREMIUM."**

The proposal instructs insurers how to investigate sinkhole loss claims. Upon receipt of a claim for a sinkhole loss, an insurer must meet certain minimum standards in investigating a claim. The insurer must make an inspection of the insured's premises to determine if there has been physical damage to the structure that might be the result of sinkhole activity. If the insurer confirms that physical damage to the structure exists but the insurer is unable to identify a valid cause of such damage or discovers that such damage to the structure is consistent with sinkhole activity, or if the structure is located in close proximity to a structure in which sinkhole damage has been verified, then prior to denying a claim, the insurer shall obtain a written certification from a professional engineer, a professional geologist, or other qualified individual approved by the director stating that the cause of the claim is not sinkhole activity, and that the analysis conducted was of sufficient scope to eliminate sinkhole activity as the cause of damage within a reasonable professional probability. If the insurer obtains written certification that the cause of the claim was not sinkhole activity, and if the insured has submitted the sinkhole claim without good faith grounds for submitting the claim, the policyholder shall reimburse the insurer for 50% of the actual costs of the analysis or \$2,500, whichever is less. An insured is required to pay reimbursement under this act only if the insurer, prior to ordering the analysis, informs the insured of the insured's potential liability for reimbursement and gives the insured the opportunity to withdraw the claim.

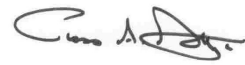
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

LO:LR:OD

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SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration  
Department of Economic Development

A handwritten signature in black ink, appearing to read "Ross Strobe", with a stylized flourish at the end.

Ross Strobe  
Acting Director  
April 11, 2013