

DAVID Y. IGE
GOVERNOR

JOSH GREEN
LT. GOVERNOR

**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310
P.O. BOX 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Consumer Protection and Commerce
Tuesday, March 19, 2019
2:00 p.m.
State Capitol, Conference Room 329**

**On the following measure:
S.B. 817, S.D. 2, H.D. 1, RELATING TO SELF-SERVICE STORAGE**

Chair Takumi and Members of the Committee:

My name is Colin Hayashida, and I am the Insurance Commissioner of the Department of Commerce and Consumer Affairs' (Department) Insurance Division. The Department offers comments on this bill.

The purpose of this bill is to establish a new article in Hawaii Revised Statutes (HRS) chapter 431 to create a limited lines license to sell, solicit, or offer self-service storage facility occupants' insurance, establish initial and renewal licensing fees, and establish sanctions for violations.

The Department is unaware of any consumer demand or need to create this limited lines license. The Department has also not received any indication from consumers stating their preference to purchase insurance for their property directly from self-storage facility personnel. The Department is similarly not aware of any data showing that by the creation of a limited lines self-storage license, property insurance

would become more affordable for self-storage renters or that more renters would be induced to purchase such coverages.

Currently, the National Association of Insurance Commissioners (NAIC) recognizes four core limited lines of insurance: car rental, credit, crop, and travel. Two other non-core limited lines which are recognized by the NAIC, but are not required to be adopted by states, are pet and legal expense. Self-service storage is not one of the NAIC-recognized limited lines.

The NAIC does not require a state to establish any non-core limited line of authority that is already authorized within an existing major line of authority. Self-service storage insurance may currently be purchased from licensed insurers through existing licensed property and casualty producers. Owners and employees of self-storage facilities do not need a limited lines license to provide insurance brochures or printed information to prospective consumers, and there is nothing prohibiting a self-storage facility from referring a prospective buyer to an insurance company or a licensed property and casualty producer. Licensed property and casualty producers would have general knowledge and experience selling homeowners insurance, rental insurance, vehicle insurance, watercraft insurance, or other types of property insurance and could assist with answering renters' questions regarding appropriate coverage and liability. Licensed producers would also be knowledgeable about proper fiduciary responsibilities when handling premiums. Consumer protection safeguards and industry standards in HRS chapter 431, article 9A are absent from this bill.

Further, the lack of regulatory oversight of the facility owner's responsibilities, such as record retention and adequate bookkeeping, is also a concern. The offering of insurance from an insurer at a self-service storage facility may also raise questions as to the motivations of, or benefits to, the self-storage facility from sales of insurance.

Finally, the issuance and renewal fees may be problematic in that proposed fees are disproportionately lower than existing issuance and renewal fees, which should be consistent with the fees set forth in HRS section 431:7-101.

Thank you for the opportunity to testify on this bill.



HIIA

Hawaii Independent Insurance Agents Association

Representative Roy Takumi, Chair
Representative Linda Ichiyama, Vice Chair
Committee on Consumer Protection & Commerce

RE: **SB 817 SD2 HD1 – Relating to Self-Service Storage – In Opposition**
March 19, 2019; 2:00 p.m.; Conference room 329

Aloha Chair Takumi, Vice Chair Ichiyama and members of the committee,

Hawaii Independent Insurance Agents Association appreciates the opportunity to express concerns on SB 817 SD2 HD1.

I. Insurance Policy:

The bill states a brochure or electronic material will be provided, but it does not indicate whether or not the “occupant” that purchased the coverage will ever receive a policy or other document which actually evidences coverage, terms, conditions and exclusions.

II. Fiduciary Responsibility:

The bill states that any “premium” collected will not be required to be put in a segregated account, but Hawaii agencies are required to maintain a separate account for client premiums.

III. Producer Licensing:

The bill currently states that the “owner” would hold a limited lines (producers) license to sell, solicit or offer coverage, but the “owner” could be a non-resident on the mainland and give a “blanket” authorization for employees and authorized representatives here to act on their behalf.

Furthermore, the application does not indicate whether or not an exam will be required to be licensed. All Hawaii producers are required to pass a comprehensive Property & Casualty exam in order to advise coverage & sell insurance.

IV. Training:

Training is to be provided, but **no check and balance that an individual has completed the training.**

V. Licensing Fee:

\$2.00 for a new license and \$1.00 for a renewal, however the cost for a Hawaii producer’s license is \$100.00 every two years.

For these reasons, we respectfully ask the committee to defer this measure.



March 18, 2019

Hearing Date: Tuesday, March 19, 2019

Time: 2:00 p.m.

Place: House Conference Room 329

The Honorable Roy M. Takumi, Chair
The Honorable Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce

Re: Testimony in Support of S.B. No. 817, S.D. 2, H.D. 1 – Relating to Self-Service Storage

Chair Takumi, Vice Chair Ichiyama, and Members of the House Committee on Consumer Protection & Commerce:

My name is Carlos Kaslow, General Counsel of the national Self Storage Association, testifying in strong support of S.B. 817, S.D. 2, H.D. 1, which authorizes the sale of stored property insurance by self-service storage facility owners under certain conditions and requires self-service storage facility owners to hold a limited lines license to sell, solicit, or offer coverage under a stored property insurance policy. S.B. 817 is the Senate companion to H.B. 269, which this committee deferred earlier this session because S.B. 817 was moving.

The Self Storage Association is a not-for-profit trade organization representing the 30,000 owners of 55,000 self storage facilities in the country.

Property stored in a self-service storage unit is in the care, custody, and control of the storage tenant; the storage tenant is responsible for insuring the property. However, approximately 50% of storage tenants are in transition and do not have a homeowner's or renter's insurance policy covering their stored property. Moreover, stand-alone insurance coverage for stored property is not typically offered by insurance agents because the commission payments are low.

Thirty-two states (the Governor of Mississippi signed a self storage insurance bill into law last week) have solved this gap in available coverage by statutorily permitting self-service storage facilities to offer storage insurance to their tenants. A map of the states that permit self storage facilities to offer storage insurance to their tenants is attached. These insurance policies are underwritten by companies such as AIG and Hanover.

Highlights of S.B. 817, S.D. 2, H.D. 1:

- The self-service storage facility owner must obtain a limited lines license to offer, solicit, or sell storage insurance.
- The self-service storage facility owner cannot require the storage tenant to purchase the storage insurance offered by the owner.

- The self-service storage operator may not offer storage insurance at its facility unless the operator works with a supervising entity. A supervising entity is a fully licensed producer or insurance company.
- Employees and authorized representatives of self-service storage facility owners may offer, solicit, or sell stored property insurance without an individual license, only if the owner is licensed, a supervising entity supervises the program, and the employees and authorized representatives do not hold themselves out as licensed producers.
- The self-service storage facility owner must make written disclosures to the storage tenant, including disclosures regarding possible duplication of coverage, the available benefits, the process for filing a claim, and the amount of any deductible.
- As added by the House Intrastate Commerce Committee, the self-storage facility owner must also make a written disclosure that: (i) stored property insurance may be purchased through licensed property and casualty producers, who may have more general knowledge and experience selling insurance and may better assist the occupant; and (ii) owners and employees operating under a limited lines license are not required to meet all of the requirements of a licensed insurance producer.
- The employees and authorized representatives of the self-service storage facility who sell, solicit, or offer storage insurance must receive training specified in the Act.
- The self-service storage facility tenant must be permitted to cancel the insurance at any time and receive a refund or credit of the unearned premium.
- The Insurance Commissioner has enforcement authority against any self-service storage facility owner that violates the Act.

Over the past year, we have been in discussions with the former Insurance Commissioner and members of the Insurance Division regarding the authorization of a limited lines license for storage insurance. The position of the former Insurance Commissioner regarding such a limited license had evolved over the years, and based on our discussions we drafted the proposed bill that is before you. We did not, however, have time to have the Insurance Division review our draft proposal before the legislative session convened.

Since that time, we have worked with new Insurance Commissioner Hayashida and Insurance Division staff to try and figure out the best way to regulate the sale of storage insurance in Hawaii, whether it be following the lead of 32 other states in either authorizing a limited line license or providing an exemption from licensing (as two states do), or something else.

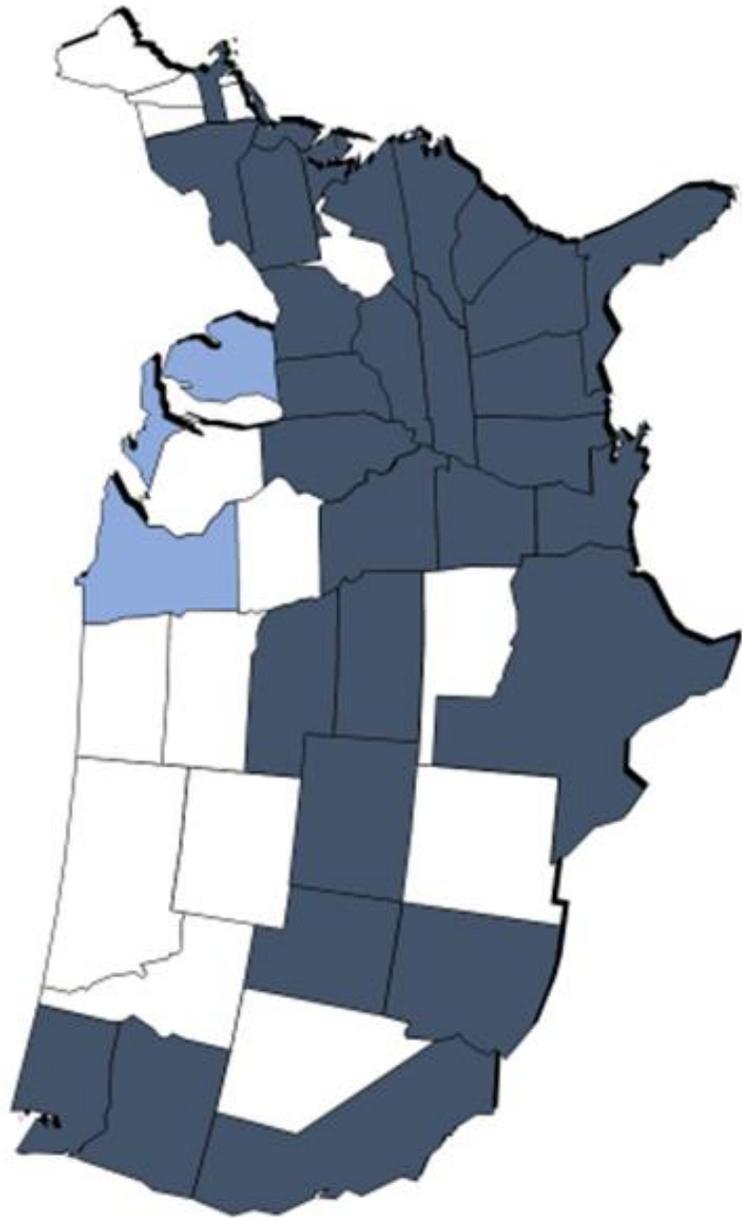
Finally, some questions were raised in testimony by the Insurance Commissioner and Hawaii Independent Insurance Agents Association (“HIIAA”) at the last hearing. We have been e-corresponding with the Insurance Commissioner and have, we believe, adequately answered his questions; our efforts are ongoing. Our answers to the HIIAA’s questions are in Appendix 1 of this testimony.

We respectfully request that you move S.B. 817, S.D. 2, H.D. 1 forward and allow us to continue to work with the Insurance Commissioner to craft a good law.

Sincerely,

Carlos Kaslow
General Counsel, Self Storage Association

Tenant Insurance



Currently, 32 states have established a Limited Lines program for self storage tenant insurance. Minnesota and Michigan provide licensing exemptions.

APPENDIX 1

Self Storage Association’s answers to Hawaii Independent Insurance Agents Association’s questions raised in House IAC testimony (3/12/2019):

I. Insurance Policy:

The bill states a brochure or electronic material will be provided, but it does not indicate whether or not the “occupant” that purchased the coverage will ever receive a policy or other document which actually evidences coverage, terms, conditions and exclusions.

Self Storage Association (“SSA”): Occupants receive a certificate that evidences the coverage, terms, conditions, exclusions, etc.

II. Fiduciary Responsibility:

The bill states that any “premium” collected will not be required to be put in a segregated account, but Hawaii agencies are required to maintain a separate account for client premiums.

SSA: This is consistent with the language in Hawaii’s existing law for portable electronics insurance licensing. [See, HRS § 431:31-104(b).] The purchase of self storage insurance is necessarily incidental to the rental of a self storage unit. The income from the purchase of insurance is dwarfed by the income from the rental of units. The purchase of insurance and the rental of the unit are invoiced and paid together, with separate line items for each. It would be unnecessarily burdensome for the storage operator and the consumer if the transactions had to be separately invoiced and paid or if the operator had to hold all revenue in a fiduciary capacity.

It should be noted that all licensed self storage operators must work with a supervising entity. The supervising entity (producer or company) is licensed and regulated by the department and has the same relationship with the individual insured as a company or producer has with its clients. Ultimately, the supervising entity oversees and is responsible for compliance with all Hawaii insurance code requirements.

III. Producer Licensing:

The bill currently states that the “owner” would hold a limited lines (producers) license to sell, solicit or offer coverage, but the “owner” could be a non-resident on the mainland and give a “blanket” authorization for employees and authorized representatives here to act on their behalf.

SSA: Other limited lines allow for non-resident licensing. The employees and authorized representatives of the licensed owner must receive training prior to selling the insurance coverage. Furthermore, the Insurance Commissioner may sanction an owner that violates the law.

Furthermore, the application does not indicate whether or not an exam will be required to be licensed. All Hawaii producers are required to pass a comprehensive Property & Casualty exam in order to advise coverage & sell insurance.

SSA: Limited lines producers do not have to complete an examination. The employees and authorized representatives complete training.

IV. Training:

Training is to be provided, but no check and balance that an individual has completed the training.

SSA: Again, the Insurance Commissioner may sanction an owner that violates the law.

V. Licensing Fee:

\$2.00 for a new license and \$1.00 for a renewal, however the cost for a Hawaii producer's license is \$100.00 every two years.

SSA: We are not looking for special treatment. The fee should be the same as the Hawaii producer's license fee.

We believe the bill's intent is to have self-service facilities offer property insurance for personal property in self-service storage facilities for individuals who are otherwise uninsured, which we are in agreement of in theory & with revisions.

It's our understanding that 31 other states have adopted similar statutes to resolve this issue. It would be our recommendation to assimilate our bill to match other states.

SSA: It does. Additionally, the bill closely tracks Hawaii's portable electronics licensing law. [See, HRS § 431:31-101, *et seq.*]



94-299 Farrington Hwy., Waipahu, HI 96797
www.williamwarren.com
www.storquest.com

Hearing Date: Tuesday, March 19, 2019
Time: 2:00 p.m.
Place: House Conference Room 329

The Honorable Roy M. Takumi, Chair
The Honorable Linda Ichiyama, Vice Chair
House Committee on Consumer Protection & Commerce

Re: Testimony in Support of S.B. No. 817, S.D. 2, H.D. 1 – Relating to Self-Service Storage

Chair Takumi, Vice Chair Ichiyama, and Members of the House Committee on Consumer Protection & Commerce:

My name is Alison Vasconcellos, District Manager of StorQuest Self Storage in Hawaii, testifying in strong support of S.B. No. 817, S.D. 2, H.D. 1, which authorizes the sale of stored property insurance by self-service storage facility owners under certain conditions and requires self-service storage facility owners to hold a limited lines license to sell, solicit, or offer coverage under a stored property insurance policy.

I have four points that I'd like to share with the Committee:

- Tenant demographic has shifted in recent years. Now, most of our tenants are either homeless or in transition. They do not have renters' or homeowner's insurance. For many, most of their belongings are in their storage unit.
- Policies offered by self-storage companies are tailored to storage, have low monthly premiums and low deductibles.
- Those that have renters' or homeowner's insurance are subject to a much larger deductible which often surprises them when they need to make a claim.
- Finding an insurer that offers a separate self-storage insurance policy in Hawaii is difficult to find.

Thank you for the opportunity to share my perspective. I respectfully request that you pass S.B. No. 817, S.D. 2, H.D. 1.

Alison Vasconcellos
District Manager
Ph: 808.542.1601
avasconcellos@williamwarren.com