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Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Intrastate Commerce
Tuesday, February 5, 2019
9:30 a.m.
State Capitol, Conference Room 430**

**On the following measure:
H.B. 269, RELATING TO SELF-SERVICE STORAGE**

Chair Ohno 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 opposes 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.

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 nothing prohibits a self-storage facility from referring a prospective buyer to an insurance company. 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.



February 4, 2019

Hearing Date: Tuesday, February 5, 2019

Time: 9:30 a.m.

Place: House Conference Room 430

The Honorable Takashi Ohno, Chair

The Honorable Dale T. Kobayashi, Vice Chair

House Committee on Commerce, Consumer Protection, and Health

Re: Testimony in Support of H.B. No. 269 – Relating to Self-Service Storage

Chair Ohno, Vice Chair Kobayashi, and Members of the House Committee on Intrastate Commerce:

My name is Carlos Kaslow, General Counsel of the national Self Storage Association, testifying in strong support of H.B. No. 269, 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.

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-one states have solved this gap in available coverage by 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 H.B. 269:

- 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 underwriting insurer or another licensed producer or insurer must supervise the administration of the stored property insurance program.
- 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.
- 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.

Proposed Amendments:

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.

After session convened, we met with new Insurance Commissioner Hayashida and Insurance Division staff. Based on our discussion, we believe that there is a better, simpler way to authorize a limited license for the sale of storage insurance. Instead of adding a new article to Chapter 431, Hawaii Revised Statutes (“HRS”), HRS §431:9A-107.5 (Limited license) could be amended to incorporate the limited license for the sale of storage insurance along with the disclosure, cancellation, and refund provisions of the proposed law.

With the caveat that we have not yet had the Insurance Commissioner review and approve of our proposed amendments, we respectfully request that the Committee consider amending H.B. 269 by deleting the proposed addition of a new article to HRS Chapter 431 and adding amendments to HRS §431:9A-107.5 as follows:

§431:9A-107.5 Limited license. (a) Notwithstanding any other provision of this article, the commissioner may issue:

....

(5) A limited license to any owner of a self-service storage facility, as defined in section 507-61, to sell, solicit, and offer insurance under a group, individual, corporate, commercial, or master policy to provide insurance coverage to occupants of a self-service storage facility for the loss of, or damage to, tangible personal property that is contained in a storage space located at a self-service storage facility or is in transit during the term of a self-service storage facility rental agreement, at all locations where the owner conducts business. Employees and authorized representatives of a licensed owner may sell, solicit, and offer stored property insurance without obtaining an individual license.

An owner that bills and collects the charges for the stored property insurance shall not be required to maintain the funds in a segregated account. An owner may receive compensation for billing and collection services.

At every location at which stored property insurance is offered, brochures or other written or electronic materials shall be made available to occupants. The brochures or other written or electronic materials shall:

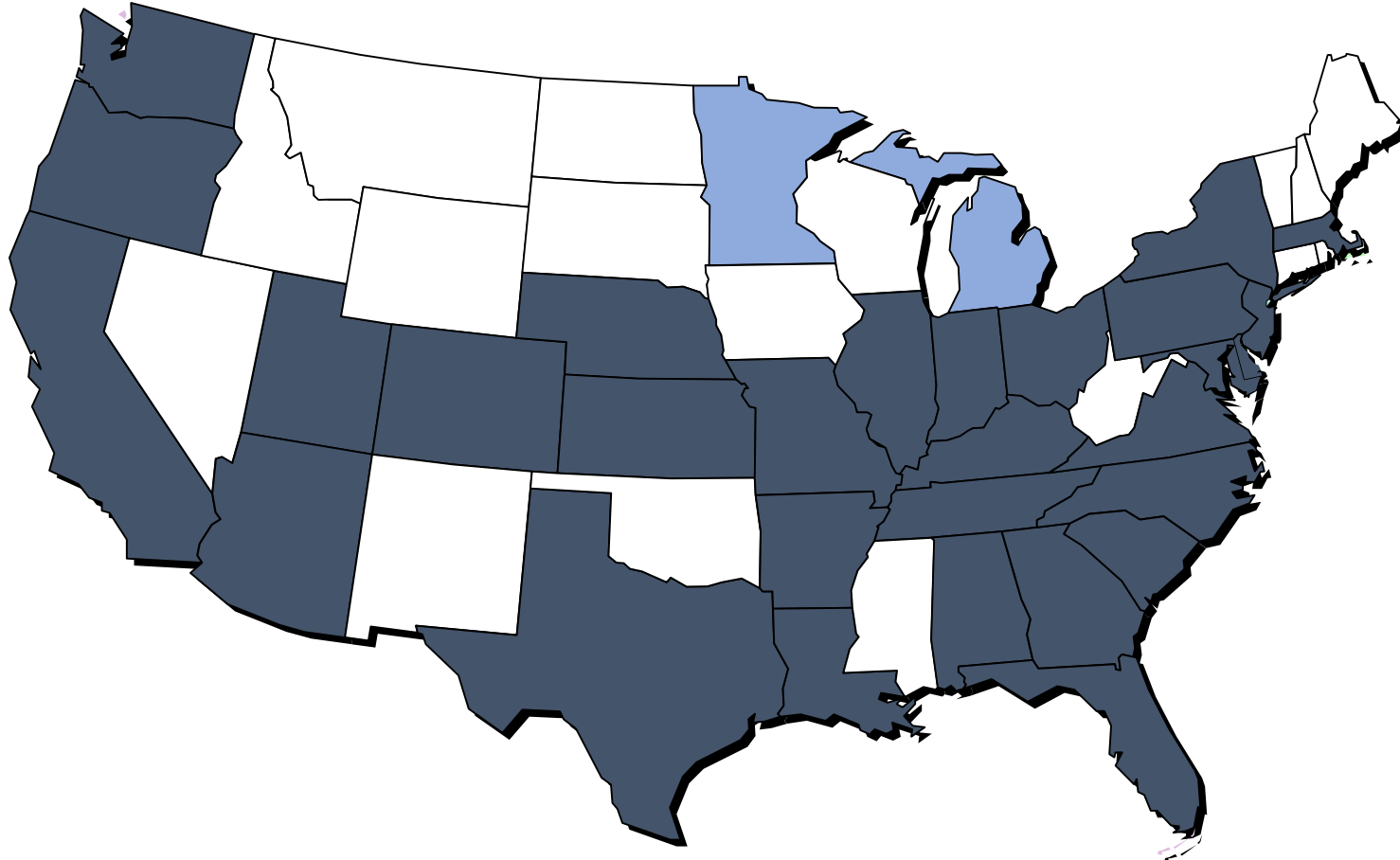
- (A) Disclose that stored property insurance may provide a duplication of coverage already provided by an occupant's homeowner's insurance policy, renter's insurance policy, or other source of coverage;
- (B) State that purchase by the occupant of the stored property insurance offered by the owner is not required to rent storage space or that, if renting storage space does require the occupant to have property insurance, that the occupant may satisfy the requirement by providing evidence that the occupant has coverage from another source of property insurance;
- (C) Contain the actual material terms of the insurance coverage, or summarize the material terms of the insurance coverage, including:
 - (i) The identity of the insurer;
 - (ii) The identity of the supervising entity; and
 - (iii) The price, deductible, benefits, exclusions, and conditions or other limitations of the coverage;
- (D) Summarize the process for filing a claim in the event the occupant elects to purchase coverage;
- (E) Disclose that the employee of the self-service storage facility is not qualified or authorized to evaluate the adequacy of the occupant's existing coverages, unless otherwise licensed; and
- (F) State that the occupant may cancel enrollment for coverage under a stored property insurance policy at any time and the person paying the premium shall receive a refund of any applicable unearned premium.

We respectfully request that you move H.B. No. 269 forward with the suggested amendments 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, 31 states have established a Limited Lines program for self storage tenant insurance. Minnesota and Michigan provide licensing exemptions.