



April 27, 2020

The Honorable Representative Diare Rendon, Chair
House Insurance Committee
124 North Capitol Avenue
Lansing, MI 48933

Dear Chair Rendon,

The Wholesale & Specialty Insurance Association (WSIA)¹ appreciates the opportunity to provide our testimony in strong opposition to the proposed legislation that would require insurers to pay for coverage that was never sold.

As proposed, HB 5739 would have far-reaching, significant negative impacts to all consumers and businesses relying on the insurance market to protect them now and in the future. This bill would retroactively change every insurance policy issued for loss of use and occupancy and business interruption so that each policy would effectively be rewritten to include coverage for business interruption during the declared state emergency due to the COVID-19 pandemic. If passed, it would mandate insurance policy interpretation regardless of the clear wording of the policy itself, providing a coverage never intended when the policy was underwritten and priced. While the bill would create an assessment fund that would purportedly be used to cover certain claims, this is fraught with issues as well.

Our fellow insurance trade associations have vigorously opposed similar proposals and discussions, and we voice our strong opposition to this bill as well as we outline below. Where there are insurance policies that provide coverage for COVID-19 pandemic business interruption losses, insurers should and will pay all properly submitted claims for which coverage exists. However, we oppose any retroactive modifications to insurance policies that do not include this coverage. Any action to fundamentally alter business interruption provisions specifically, or property insurance generally, to retroactively mandate insurance coverage for viruses by voiding those exclusions, would immediately subject insurers to claim payment liability that threatens solvency and the ability to make good on the actual promises made in

¹ The Wholesale & Specialty Insurance Association (WSIA) is the non-profit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system. WSIA represents the interests of its members and the valuable role they play in the insurance market through networking, education, talent recruitment and development, regulatory and legislative advocacy for surplus lines, and by promoting the value of the wholesale distribution channel. WSIA is a world-class member service organization representing the entirety of the wholesale, specialty and surplus lines industry. The Wholesale & Specialty Insurance Association was formed in 2017 through the merger of the American Association of Managing General Agents (AAMGA) and the National Association of Professional Surplus Lines Offices (NAPSLO).

existing insurance policies. Payment of claims that were never contemplated ensures that some contemplated claims such as fire, wind and other perils, will be left unpaid due to reserve inadequacies.

WSIA has issued a [statement opposing legislation](#) that changes insurance contracts from their original intent, which we respectfully ask that you consider. Below we highlight and outline why we so strongly oppose HB 5739 and appreciate your consideration of our concerns.

1. Insurers reserve assets to pay claims based on assumed risk factors. The risks detailed in an insurance policy provide the fundamental basis for calculating these reserves and setting the price of the insurance premium. In the case of this proposed legislation, the insurer would be mandated to pay claims for coverage it did not sell and, losses that it did not prepare or reserve for, which exacerbates the risk of insolvency for any insurers issuing business interruption policies in this state. The [American Property and Casualty Insurance Association estimated](#) that the COVID-19 pandemic shutdown cost \$383 billion for small businesses of less than 100 employees which, even in Michigan, would represent an unprecedented financial burden on insurers. Some if not many or all will likely have difficulty meeting their obligations to cover the perils they are contracted to cover, and which are expressly specified in their insurance policies. Fires, hurricanes and other perils do not cease for a pandemic and policyholders experiencing insured losses, now and in the future, need to know insurers will be there to pay legitimate claims.
2. Mandating the payment of insurance that was never purchased would make the market unstable for insurers. Insurers will not know if policy terms will be discarded in the future based on crises, catastrophic events, or desired public policy outcomes. No contractual relationship can be secure when the parties cannot count on the contract to be honored. The bill would also have disastrous national ripple effects. Regulators in other states might compel their domiciled insurers who do business in Michigan to not pay claims based upon the passage of the bill because they would recognize its disastrous impact on the solvency of their domestic insurers.

In addition, Article 1, Section 10, Clause 1 of the United States Constitution clearly states, *inter alia*, that “[n]o State shall...pass any...ex post facto Law, or Law impairing the Obligation of Contracts.” The U.S. Constitution therefore explicitly prohibits states from passing any retroactive law that impairs contractual obligations, which is precisely what HB 5739 would do. Legislatively rewriting existing insurance contracts would run afoul of this constitutional prohibition against the government impairing private contracts. Passage would no doubt lead to unproductive, protracted litigation based on a flagrant violation of the U.S. Constitution.

3. WSIA has joined a group of three dozen organizations to propose the creation of a federal [COVID-19 Business and Employee Continuity and Recovery Fund](#) (“Recovery Fund”), which would distribute federal funds and liquidity to impacted businesses and their employees. We respectfully submit that active support for this type of comprehensive program is the most productive approach to addressing the most current needs of businesses and their employees in these trying times—not violating the U.S. Constitution and setting a dangerous precedent in contract law and insurance policy.

For these reasons, WSIA urges the legislature to NOT ENACT HB 5739. Thank you for your time and please let us know if you have any questions about our policy statement or our request for accommodations.

Sincerely,

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