

BRAD SMOOT
ATTORNEY AT LAW

800 SW JACKSON, SUITE 808
Topeka, Kansas 66612
bradsmoot@smootlawoffice.com

(785) 233-0016 (Office)
(785) 224-1200 (Cell)
(785) 234-3789 (Fax)

WRITTEN ONLY
STATEMENT OF BRAD SMOOT
LEGISLATIVE COUNSEL
THE AMERICAN INSURANCE ASSOCIATION
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
REGARDING 2018 SB 362
MARCH 14, 2018

Mr. Chairman and Members:

Thank you for this opportunity to comment on behalf of the American Insurance Association regarding 2018 SB 362. AIA is a trade group of more than 300-member insurance companies who write commercial, general liability, auto, home, life and workers compensation insurance in all 50 states. Our members include companies that are household names, employ thousands of Kansans and may even insure your family or business.

AIA respectfully opposes 2018 Senate Bill 362 which would prevent contracts of property and casualty insurance from using depreciation of labor expense in calculating losses. Currently, customers can purchase policies that allow for claim payment that reflects depreciation and also policies that call for insurance payments for full replacement value. These two types of policies give consumers choices and the premium of each reflects the different potential recovery with the full replacement value (no depreciation) policy being more expensive.

I am told that depreciation only applies until repairs are completed or the repairs are never made. Once repaired, insurance covers the actual costs less any deductible. Whether the repairs are made is a decision made by the property owner. Only when the property is "totaled," is the issue of labor depreciation an issue. We see little reason for the Kansas Legislature to remove consumer options regarding what type of policy to buy, how much to pay and whether to repair property. Reducing consumer choice does not seem to us to be consumer-friendly.

Finally, a 2013 Arkansas Supreme Court decision imposed a similar restriction on the use of depreciation of labor costs under insurance policies issued in that state. The Arkansas Legislature passed SB 133 in 2017 to reverse that decision, restoring the use of depreciation under some policies and restoring consumer choice in the property insurance marketplace — just the opposite of what is proposed in SB 362. We think the Arkansas Legislature got it right.

The American Insurance Association urges to Committee to reject SB 362 and allow the insurance market to continue the use of labor depreciation in certain circumstances and policies as it has done for over 100 years. Thank you for consideration of our views.

