

**SUBJECT:** Specialty insurance license for those who rent residential property

**COMMITTEE:** Insurance — committee substitute recommended

**VOTE:** 5 ayes — Smithee, Eiland, Averitt, J. Moreno, Seaman  
2 nays — G. Lewis, Olivo  
1 present, not voting — Burnam  
1 absent — Thompson

**SENATE VOTE:** On final passage, March 19 — voice vote (Duncan, Harris, Haywood, Jackson, Nelson, Truan recorded nay)

**WITNESSES:** None

**DIGEST:** CSSB 431 would authorize the insurance commissioner to issue a specialty license to a residential landlord or to a landlord's property manager to act as an agent for any authorized insurer selling renter's insurance. The landlord or property manager could act as agent with respect to:

- ! insurance that provided coverage to residential renters for loss of or damage to tangible personal property during the term of the residential rental agreement (or lease);
- ! insurance that provided liability coverage to residential renters for bodily injury or property damage during the term of the residential rental agreement (or lease); or
- ! any other coverage the commissioner might approve as meaningful and appropriate in connection with the lease of the residential rental property.

Insurance could not be issued unless brochures or other written materials containing the required disclosures were displayed prominently and readily available to the prospective renter.

A holder of a residential renter license would have to include a disclaimer in bold-face type, in the format prescribed by the commissioner, in each lease

agreement under which the license holder offered insurance. This disclaimer would have to state that:

- ! purchase of insurance from the license holder would not be required as a condition of entering into the lease agreement;
- ! the insurance coverage was available from other insurers and agents;
- ! the coverage offered by the license holder could be offered at rates that were not filed with, or approved by, the commissioner;
- ! the consumer should seek and obtain the best rates and coverage;
- ! the coverage could be canceled at the consumer's option, with the consumer receiving any refund to which the consumer was entitled;
- ! the cost of any insurance coverage offered by the license holder would have to be stated specifically if added to the rent due; and
- ! the license holder could not offer a consumer insurance coverage if the license holder required the consumer to have insurance coverage as a condition of entering into the lease agreement.

The bill would take effect September 1, 2001. A residential landlord or property manager would not have to be licensed as provided by the bill before January 1, 2002.

**SUPPORTERS  
SAY:**

SB 431 would allow rental property owners to obtain a specialty license to offer their residents renter's insurance. Most residents of rental property do not obtain insurance because they often do not realize that the landlord's or owner's insurance does not cover their belongings or personal liability. Also, residents do not obtain insurance because they must find an insurance company that is willing to sell them renter's insurance and then complete a separate application process.

This bill would offer a "one-stop" process to renters when they lease. Rental property owners could enter into agreements to offer insurance through an insurance agent or company. The landlord or specialty insurance license holder only would provide marketing information, answer basic questions, and process paperwork. All policies, claims, and technical questions would be handled by the fully licensed insurance agent or insurance company.

SB 431 specifically would prohibit a rental property owner or manager from requiring residents to buy renter's insurance from the owner to enter into a

lease. The bill would mandate a bold-faced disclosure in the lease contract to advise residents that insurance coverage was available from other insurers and that residents should seek the best rates and coverage.

In 1999, the Legislature enacted a similar law allowing mini-storage owners to offer insurance to their renters. The convenience of this arrangement is considered a major reason why coverage has increased dramatically at some mini-storage facilities.

Only 15 percent of Texas' renters have insurance to cover their belongings. This bill's intent is to encourage more residents to obtain renter's insurance for their protection and, in turn, for the protection of their friends and neighbors, as well as of the property owner.

OPPONENTS  
SAY:

Allowing landlords and property managers to sell renters' insurance would both undermine insurance agents and potentially coerce consumers. The bill's purported consumer protections could be easily circumvented. For instance, the bill would require that brochures containing the required disclosures be displayed prominently and readily available to a prospective renter. However, the bill would not specify a location for display. Many people who seek to rent residential property only view the actual property and never see the landlord's or property manager's office prior to a verbal agreement to lease the property.

The bill also would direct that the disclaimers be contained in the lease agreement. A landlord or property manager usually makes an informal or verbal agreement with a renter before the actual documents are prepared. A renter could be ready to sign a lease without being aware of any possible insurance transaction, much less warnings or potential problems associated with it. By that stage, the renter might fear losing a particular residence if he or she did not agree to renter's insurance offered by the landlord, especially in a tight market where rental property was at a premium.

The comparison between the renter's insurance that landlords could offer under this bill and the insurance that the 76th Legislature authorized mini-storage operators to offer is not valid. People do not live inside their storage units, and renter's insurance involves many more considerations.

The sale of insurance to cover a person's personal belongings is important business. It should occur between parties that are both aware of the nature and terms of the transaction. The consumer should be able to ask questions and be advised about rates and forms, particularly as to specific coverage. This bill would not encourage the kind of fiduciary relationship necessary for those standards and expected from an insurance agent.

The assertion that all policies and technical questions would be handled by a fully licensed insurance agent or company would be of little comfort to someone who unwillingly or unknowingly entered into a policy with inadequate or incomplete coverage.

OTHER  
OPPONENTS  
SAY:

SB 414 by Madla, which passed the House on May 15, would allow landlords, for the first time, to refer lessees to existing insurance companies for renter's insurance. This would seem a responsible way to encourage renters to obtain insurance with less opportunity for coercion and more assurance of state-approved rates and forms.

NOTES:

The committee substitute changed the Senate engrossed version by adding the requirements that the disclaimer in a lease agreement state that the cost of any insurance offered by the landlord or property manager, if added to the rent due, would be stated specifically and that the landlord or license holder could not offer a consumer insurance coverage if the landlord required the renter to have insurance coverage as a condition of entering into the lease.