



# Senate

General Assembly

**File No. 229**

January Session, 2007

Substitute Senate Bill No. 1212

*Senate, April 2, 2007*

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

## **AN ACT CONCERNING COVERAGE BY THE CONNECTICUT INSURANCE GUARANTY ASSOCIATION.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subdivision (1) of section 38a-841 of the general statutes is  
2 repealed and the following is substituted in lieu thereof (*Effective*  
3 *October 1, 2007*):

4 (1) Said association shall: (a) Be obligated to the extent of the  
5 covered claims existing prior to the determination of insolvency and  
6 arising within thirty days after the determination of insolvency, or  
7 before the policy expiration date if less than thirty days after the  
8 determination, or before the insured replaces the policy or causes its  
9 cancellation, if he does so within thirty days of such determination,  
10 provided such obligation shall be limited as follows: (i) With respect to  
11 covered claims for unearned premiums, to one-half of the unearned  
12 premium on any policy, subject to a maximum of two thousand dollars  
13 per policy; (ii) with respect to covered claims other than for unearned  
14 premiums, such obligation shall include only that amount of each such

15 claim which is in excess of one hundred dollars and is less than [three]  
16 four hundred thousand dollars, except that said association shall pay  
17 the full amount of any such claim arising out of a workers'  
18 compensation policy, provided in no event shall (A) said association be  
19 obligated to any claimant in an amount in excess of the obligation of  
20 the insolvent insurer under the policy form or coverage from which  
21 the claim arises, or (B) said association be obligated for any claim filed  
22 with the association after the expiration of two years from the date of  
23 the declaration of insolvency unless such claim arose out of a workers'  
24 compensation policy and was timely filed in accordance with section  
25 31-294c; (b) be deemed the insurer to the extent of its obligations on the  
26 covered claims and to such extent shall have all rights, duties, and  
27 obligations of the insolvent insurer as if the insurer had not become  
28 insolvent; (c) allocate claims paid and expenses incurred among the  
29 three accounts, created by section 38a-839, separately, and assess  
30 member insurers separately (i) in respect of each such account for such  
31 amounts as shall be necessary to pay the obligations of said association  
32 under subdivision (a) of subsection (1) of this section subsequent to an  
33 insolvency; (ii) the expenses of handling covered claims subsequent to  
34 an insolvency; (iii) the cost of examinations under section 38a-846; and  
35 (iv) such other expenses as are authorized by sections 38a-836 to 38a-  
36 853, inclusive. The assessments of each member insurer shall be in the  
37 proportion that the net direct written premiums of such member  
38 insurer for the calendar year preceding the assessment on the kinds of  
39 insurance in such account bears to the net direct written premiums of  
40 all member insurers for the calendar year preceding the assessment on  
41 the kinds of insurance in such account. Each member insurer shall be  
42 notified of its assessment not later than thirty days before it is due. No  
43 member insurer may be assessed in any year on any account an  
44 amount greater than two per cent of that member insurer's net direct  
45 written premiums for the calendar year preceding the assessment on  
46 the kinds of insurance in said account, provided if, at the time an  
47 assessment is levied on the "all other insurance" account, as defined in  
48 subdivision (c) of section 38a-839, the board of directors finds that at  
49 least fifty per cent of the total net direct written premiums of a member

50 insurer and all its affiliates, for the year on which such assessment is  
51 based, were from policies issued or delivered in Connecticut, on risks  
52 located in this state, such member insurer shall be assessed only on  
53 such member insurer's net direct written premium that is attributable  
54 to the kind of insurance that gives rise to each covered claim. If the  
55 maximum assessment, together with the other assets of said  
56 association in any account, does not provide in any one year in any  
57 account an amount sufficient to make all necessary payments from that  
58 account, the funds available may be prorated and the unpaid portion  
59 shall be paid as soon thereafter as funds become available. Said  
60 association may defer, in whole or in part, the assessment of any  
61 member insurer, if the assessment would cause the member insurer's  
62 financial statement to reflect amounts of capital or surplus less than the  
63 minimum amounts required for a certificate of authority by any  
64 jurisdiction in which the member insurer is authorized to transact  
65 insurance provided that during the period of deferment, no dividends  
66 shall be paid to shareholders or policyholders. Deferred assessments  
67 shall be paid when such payment will not reduce capital or surplus  
68 below the minimum amounts required for a certificate of authority.  
69 Such payments shall be refunded to those insurers receiving greater  
70 assessments because of such deferment or, at the election of the  
71 insurer, be credited against future assessments. Each member insurer  
72 serving as a servicing facility may set off against any assessment,  
73 authorized payments made on covered claims and expenses incurred  
74 in the payment of such claims by such member insurer if they are  
75 chargeable to the account in respect of which the assessment is made;  
76 (d) investigate claims brought against said association and adjust,  
77 compromise, settle, and pay covered claims to the extent of said  
78 association's obligations, and deny all other claims. The association  
79 shall pay claims in any order it deems reasonable, including but not  
80 limited to, payment in the order of receipt or by classification. It may  
81 review settlements, releases and judgments to which the insolvent  
82 insurer or its insureds were parties to determine the extent to which  
83 such settlements, releases and judgments may be properly contested;  
84 (e) notify such persons as the commissioner may direct under

85 subdivision (a) of subsection (2) of section 38a-843; (f) handle claims  
86 through its employees or through one or more insurers or other  
87 persons designated by said association as servicing facilities, provided  
88 such designation of a servicing facility shall be subject to the approval  
89 of the commissioner, and may be declined by a member insurer; (g)  
90 reimburse each such servicing facility for obligations of said  
91 association paid by such facility and for expenses incurred by such  
92 facility while handling claims on behalf of said association and shall  
93 pay such other expenses of said association as are authorized by  
94 sections 38a-836 to 38a-853, inclusive.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2007</i>	38a-841(1)

**INS**      *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

**OFA Fiscal Note**

**State Impact:**

Agency Affected	Fund-Effect	FY 08 \$	FY 09 \$
Department of Revenue Services	GF - Revenue Impact	See Below	See Below

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

Insurers that are assessed by the Connecticut Insurance Guaranty Association (CIGA)<sup>1</sup> can claim an offset to their insurance premium tax obligation for any assessments. The bill increases the coverage limit for the CIGA to \$400,000 from \$300,000, which potentially increases the amount CIGA assess insurers. Therefore if the bill results in greater assessments then there would be a General Fund Revenue loss to the insurance premium tax.<sup>2</sup>

**The Out Years**

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

<sup>1</sup> CIGA, which is funded by assessments against insurers licensed to write property and casualty insurance in the state, is required by law to process and pay qualifying claims filed by state residents against an insolvent insurance company. CIGA will attempt to refund those insurers they assess over time with funds they recover from the insolvent insurer.

<sup>2</sup> To the extent insurers are refunded by CIGA they are required to reimburse Connecticut for their previously claimed offset to the insurance premiums tax.

**OLR Bill Analysis****sSB 1212*****AN ACT CONCERNING COVERAGE BY THE CONNECTICUT INSURANCE GUARANTY ASSOCIATION.*****SUMMARY:**

This bill increases the coverage limit for the Connecticut Insurance Guaranty Association, which pays claims for insolvent insurers, to \$400,000 from \$300,000.

EFFECTIVE DATE: October 1, 2007

**BACKGROUND*****Connecticut Insurance Guaranty Association***

The association, which is funded by assessments against insurers licensed to write property and casualty insurance in the state, is required by law to process and pay qualifying claims filed by state residents against an insolvent insurance company.

***Related Bill***

HB 7061, reported favorably by the Insurance and Real Estate Committee, exempts government entities and charitable organization from repaying the association for claims paid on behalf of the entity's insolvent insurers.

**COMMITTEE ACTION**

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 19 Nay 0 (03/15/2007)