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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 19, 2009

HB 6278, An Act Concerning Insurance Guaranty Fund Credits

The Insurance Association of Connecticut opposes HB 6278, An Act Concerning Insurance Guaranty Fund Credits.

Connecticut, like most states, has two insurance guaranty associations (CLHIGA for life and health insurance; CIGA for property casualty insurance).

Guaranty associations are created to honor the commitments made to policyholders by companies that have become insolvent. Insurers authorized to write the respective businesses in the state are members of the guaranty associations. In the event of an insurer insolvency, the state guaranty association assesses its solvent member insurers on a basis proportional to the amount of business they have in the state. The assessments are used to cover the remaining policyowner obligations of the insolvent insurer. In this way, state guaranty associations establish an important safety net for insureds who are left unprotected when their insurer becomes insolvent.

Since 2000, insurers that paid assessments to CLHIGA and CIGA have had a 100% tax offset, to be taken against the companies' premium tax liabilities. Tax offsets allow insurers to recoup most of the value of the assessment, although they lose a portion of the assessment due to the effects of the time value of money. Solvent insurers are in effect providing an interest free loan to the state for the time span within which

they take the tax credits. Tax offsets allow the costs of the insolvency to be spread across the entire state, and recognize the social value of insurance guaranty associations.

HB 6278, by cutting the premium tax offset to 50%, would force solvent insurers to bear appreciably more of the brunt of the losses of that insolvency, which occurred through no fault of their own.

HB 6278 will cause the cost of insurance to increase, as insurers will have to recoup the assessment losses through premium increases (although there is no provision in this bill for permitting recoupment through premium). This is especially problematic, because the timing of insolvencies, and the resulting assessment responsibilities, cannot be predicted. Insurers will be exposed to future liabilities that are unknown and unquantifiable.

Forty-four states allow premium tax offsets for life and health insurers, with 39 states at 100%, most spread over five years (Connecticut's current law). On the property casualty side, 22 states have premium tax offsets, with almost all provided for full recoupment. In fact, the NAIC is currently developing a Property and Casualty Model Act. The drafters have agreed that, in states providing tax credits for assessments, credits would operate to fully recoup investments.

If HB 6278 passes, Connecticut insurers will be subject to retaliatory tax liability in states across the country, unnecessarily increasing the cost of their doing business in those states, and harming their ability to compete for business there.

If HB 6278 is adopted, an unfair competitive environment would also be created. Well managed insurers would be penalized three times: first, when they lose business to competitors who inadequately price their products; second, when they are assessed by a guaranty association to cover the costs of those competitors' insolvencies; and third,

when they are unable to offset all of their paid assessments against premium taxes. As a matter of fairness, companies that are assessed to pay the unpaid claims and obligations of poorly-run competitors should be able to recover all of their costs through tax offsets.

One of the primary responsibilities of a state insurance department is to regulate insurers' solvency, a job Connecticut's Department has done well over the years. With careful regulation, and efficient and prompt liquidating of failing companies, an insurance department can mitigate the need for assessments.

In 2004, the General Assembly increased CLHIGA's liability per claim for life products ($300,000 to $500,000) and annuity products ($100,000 to $500,000). In 2007, the General Assembly increased the maximum claim liability of CIGA from $300,000 to $400,000. In 2008, the General Assembly passed legislation exposing CIGA to $2 million in additional liability from the Masonic Home by preventing the exercise of the Association's statutory right of recovery. In each case the insurance industry was told that it had no real basis to object because of the 100% offset.

HB 6278 is directly contrary to that assertion, and would place an unfair and counterproductive burden on insurers and their policyholders. IAC urges rejection of HB 6278.