

6531

STATEMENT

INSURANCE ASSOCIATION OF CONNECTICUT

Insurance and Real Estate Committee

February 24, 2009

HB 6531, An Act Clarifying Postclaims Underwriting

The Insurance Association of Connecticut is opposed to subsection (h) of Section 2 of HB 6531, An Act Clarifying Postclaims Underwriting, as it is overly broad and will unnecessarily alter the landscape for insurance in Connecticut.

Subsection (h) of Section 2 of HB 6531 would require the Insurance Commissioner to develop, in conjunction with the Office of the Health Care Advocate and the Attorney General, uniform and readable applications for each line of insurance authorized to be sold in this state. Every insurer licensed to do business in this state will be required to use the application. This requirement would bring the industry to a standstill. Insurers would not be able to develop new and innovative products to meet emerging consumer needs. Insurers would have to wait for the Commissioner to develop a new application for any new product.

Individualized applications permit insurers to be innovative and develop products to meet consumer need. Such products need specialized information, obtained from the application, which permits insurers to properly underwrite the risk. Insurers have spent significant amounts of time crafting the questions that they use on their applications. A standardized application would not ask for all the information that was needed in order to administer coverage nor would

insurers be able to comply with the organizational and underwriting rules governing the industry. Insurers don't want to collect any information that they don't need because it presents privacy/security risks. For example, an insurer's system may never capture unneeded information contained on the standardized application, however, the insurer will be charged with protection and knowledge of such information if ever a problem arose. Insurers would have to develop new computer systems and data collections and underwriting processes just for Connecticut for no demonstrated reason. This is fundamentally unfair for the both the insured and insurer.

Individualized applications lead to unique products that equate to a competitive market. A single application used by all insurers would impair creativity in the market, curtailing the competitive nature of Connecticut's vibrant life and property and casualty markets. The impediment to developing new products for consumers; increased administrative costs, and the lack of a competitive market that would result from standardized applications only serve to increase the costs of insurance in Connecticut.

Furthermore, life insurers and property and casualty insurers would be dependent on individuals with limited knowledge of their lines of insurance to develop applications, yet insurers would be held responsible for their actions. What benefit does the Office of the Health Care Advocate add to developing an application for a homeowner's policy or an Errors and Omissions Policy? What knowledge does the Attorney General have regarding the impact that information, requested on an insurance application, has on the underwriting and actuarial process? Currently, insurers are held to a strict standard in any dispute

that may arise out of the application process based upon the rationale that insurers develop the application. That standard will have to change, as the insurer would be charged with that strict liability without having had the benefit of writing the question, which is grossly unfair.

The IAC urges your rejection of subsection (h) of Section 2 of HB 6531.