

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 1, 2011

HB 6238, An Act Concerning Replacement Cost Coverage Under Homeowners Insurance and Commercial Risk Policies

The Insurance Association of Connecticut, IAC, is opposed to HB 6238 as it is confusing and will do severe harm to the homeowner's insurance market place in Connecticut.

HB 6238 unnecessarily alters the very nature of homeowner's coverage currently available in the market. The requirements set forth in HB 6238 do not exist anywhere else in the country. The market is designed to provide options to the insured when purchasing homeowner's insurance and the tools for insurers to underwrite and price such policies accordingly. Currently, an insured can choose a less expensive policy that is designed to provide coverage only to a set dollar amount (an actual cash value policy). Or the insured can choose to purchase a policy that will pay the insured to replace a property, known as a guaranteed replacement cost policy. HB 6238 attempts to statutorily define these products in a manner that is inconsistent with the market. The effect of the definitions contained in HB 6238 essentially eliminates the use of the current actual cash value policies widely purchased in Connecticut. The terms "actual cash value" and "replacement value" are terms that cannot be used in concert as is done in HB 6238.

The definitions and application of the provisions of HB 6238 are confusing. The inclusion of "depreciation" within the definition of (c) is nonsensical. Subsection (d) contradicts the provisions of subsection (c). Subsection (c) states that a "replacement cost" policy can account for depreciation, however, subsection (d) specifically prohibits any "holdbacks". If a "holdback" is depreciation, then this proposal is unworkable. If a "holdback" means a portion of money owed on a policy, this requirement ignores a fundamental concept of the replacement policy; that the full value of replacement is paid only if the property is actually replaced. By denying the ability of an insurer to

“holdback” such funds, the policy no longer operates as a replacement policy. Furthermore, the definitions used in this proposal are only applicable for total losses ignoring the vast majority of claims that only involve repairs.

HB 6238 mandates that an insurer “consider any reasonable cost values” that are submitted by the insured. What does this mean? At what point in the process is this applicable? If it’s to be considered at the time of loss, how does one calculate the premium for such a policy? The value at which a property is insured is negotiable. If the insured and insurer do not agree on what value a property should be insured at, the insured has the ability to seek coverage from other carriers. This is a function of the competitive market place. Denying an insurer the ability to assess a risk and establish a value at which it is willing to insure it will be disruptive to the competitive marketplace that exists in CT.

HB 6238 could result in all insurers having to insure a property at a value established by the insured. Permitting the insured to self define the value of one’s property for insurance purposes invites abuse and is a possible incentive to fraud.

The IAC urges your rejection of HB 6238.