Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 24, 2011

<u>HB 6364, An Act Concerning The Sunset Date For Personal Risk Insurance Rate Filings And Rate Increases In Certain Circumstances</u>

The Insurance Association of Connecticut (IAC) supports section 1 of HB 6364, which would extend the sunset date for "flex rating" for personal lines insurance. IAC opposes section 2 of the bill, which would have an unfair and detrimental effect on Connecticut's personal lines insurance marketplace.

In 2006 the General Assembly approved legislation that established "flex rating" for personal lines insurance in Connecticut. As long as an insurer's filed overall state-wide rate increase or decrease does not exceed six percent in the aggregate in a year, the insurer does not need prior approval from the Insurance Commissioner to use the rate.

P.A. 09-217 sunset the "flex-rating" provisions on July 1, 2011. Section 1 of HB 6364 would extend the sunset date for two years, to July 1, 2013, which would be a positive development for insurance consumers and the personal lines marketplace in Connecticut.

Competitive rating (filing and using rates without prior approval) allows insurers to adjust the price for their products quickly, up or down, as changing conditions and experiences warrant. This allows insurers to compete vigorously and to price their products aggressively.

"Flex-rating" enables insurers to react effectively and quickly to changing market conditions and experiences, further increasing competition in the marketplace, while continuing the prior approval process for any proposed rates changes which exceeds the cumulative rating band. Experience in other states, and in Connecticut since 2006, has shown that the typical filing under a flex-rating system is well within the rating band limit.

The National Conference of Insurance Legislators' Flex-Rating Model Act allows rate increases of up to twelve percent without prior approval. In 2008, Kansas adopted legislation using that twelve percent limit. One year after the adoption of a flex-rating law in Louisiana, the state's insurance commissioner stated that consumers have benefited from the flex rating system because ". . . insurers aren't as reluctant to reduce rates when business is good . . .," knowing they can file and use new rates if experience worsens. New York recently readopted a flex-rating system.

Since 2006 overall rate changes in Connecticut for auto insurance have been basically flat. According to press reports, the number of auto insurance companies doing business in this state has grown substantially. The assigned risk pool has continued to shrink to all-time lows (there were only 365 insured in the pool in 2009, versus a high of about 200,000 drivers in 1988).

The competitive marketplace is working in Connecticut to the benefit of consumers, as more insurers are competing for business based on price, product and service. Section 1 of HB 6364, by continuing "flex-rating", will further encourage that competition while retaining the Insurance Department's prior approval authority over rate changes exceeding six percent.

IAC urges passage of section 1 of HB 6364.

IAC opposes section 2 of HB 6364, which would put an arbitrary and counterproductive cap on permissible rate increases when an insurer "discontinues accepting applications for a line or subline of personal risk insurance in the state . . .".

If an insurer decides to stop taking applications for new business in a line of insurance, there are undoubtedly legitimate economic and business reasons for such a decision. After all, companies are in business to do business, so such a decision is not entered into lightly. However, section 2 would potentially prevent that insurer from getting actuarially sound rate increases for the existing, ongoing book of business that it continues to service by capping any future rate increase at a maximum of six percent.

An insurer should be able to file for a rate increase that is actuarially supported, regardless of whether it is accepting new applications. It is still responsible for the claims costs of its existing book of business, and must be allowed to generate the necessary premiums for the risks presented. In fact, section 2 could force "inadequate" rates on insurers, contrary to the duties of the Insurance Commissioner (C.G.S. 38a-686).

If section 2 prevents an insurer from using legitimate, actuarially supported rates, it could force insurers to simply get out of the line of business entirely and non-renew its insureds. Consumers will not benefit from such an unnecessary disruption and contraction of the insurance marketplace.

Section 2 could threaten the financial stability of the insurer, and will limit the authority of the Insurance Commissioner to address an insurer's fiscal problems. In effect, section 2 would supersede the Commissioner's responsibility to judge filings according to their merits and the requirements of state law.

IAC urges rejection of section 2 of HB 6364.