

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 28, 2012

HB 5230, An Act Concerning Various Changes To Property
And Casualty Insurance Statutes

The Insurance Association of Connecticut, IAC, is opposed to HB 5230 as it contains numerous unnecessary and confusing provisions which will do severe harm to the property insurance market in Connecticut for no apparent reason or consumer benefit. The changes contemplated in HB 5230 amend standardized forms that have been used throughout the country, and Connecticut, for decades without incident.

Section 1

The IAC opposes section 1, which would set standards for hurricane deductibles in homeowners' insurance policies. Last December, the Insurance Department revised its Guidelines Related to Underwriting Coastal Homeowners Insurance Policies to clarify its requirements for hurricane deductibles and when they may be imposed. Department approvals of insurers' policy forms are based on compliance with those Guidelines.

The issues presented in section 1 have already been directly addressed by the revised Guidelines. Continued use of the Guidelines would also provide the Department with more flexibility to make future revisions when deemed necessary. As such, the IAC believes that section 1 is unnecessary.

If the decision is made to go forward with section 1, the IAC would request the opportunity to work with the Committee and the Insurance Department to correct several problems with the wording of section 1, which in its current form creates inconsistencies and conflicts with the Guidelines and existing Department practices.

Section 2

While the industry believes insureds should be advised regarding the extent and cost of work performed by vendors doing mitigation work following a loss, it does not support mandating that an insured receive written notification prior to the commencement of such work as would be required pursuant to Section 2. Unlike work done to repair or remediate a loss, work performed for mitigation purposes is time sensitive. Mitigation work must be performed quickly to limit the extent of loss and the potential for future damage. Demanding a written notice prior to work commencing will have an onerous effect on insureds that want the recovery process to begin immediately, which could either drive up the cost of the claim or even jeopardize one's coverage.

Section 3

Section 3 is extremely confusing and overreaching. Mandating that all the provisions in a standard fire policy apply to all homeowners and commercial property insurance policies in Connecticut ignores the realities of the marketplace and current law. The standard fire policy is the basic bare bones homeowner's policy. Consumers have the ability to purchase expanded coverage through either extended coverage policies or adding riders to the Standard Fire policy, Section 38a-311. This section would in effect remove those options for the consumer and be in direct conflict with existing law.

Additionally, this section would require that all homeowner's and commercial policies bear the same title, regardless of the coverage it provides. Different policies provide different levels of coverage and are often labeled in a way to reflect that, like a Renter's Policy. Insurers have developed brand names for their products, which are used and marketed throughout the country. Consumers like choice. Consumers like being able to distinguish products. Agents assist consumers by explaining coverage differences and help ensure the consumer is getting the coverage that fits their needs. Labeling all policies the same will actually lead to confusion in the market as a consumer may have problems understanding the distinction between policies, thinking that all policies are the same providing the same conditions and level of benefits. A one size fits all approach does not work. Consumers may end up buying coverage they may not want or need.

Finally, this section is in direct conflict with existing statutory language which already mandates that "The Standard Fire Policy of Connecticut" be printed on all standard fire policies. Would this section now dictate that the same policy bear two labels?

Subsection (b) (2) of this section is confusing. It is unclear the purpose of this section or what it does. Most homeowners and commercial policies provide for coverage against fire, but not all such policies provide coverage for the structure. For example, a renter's policy provides coverage for the renter's personal property, among other things, but does not provide coverage for the rental property. Likewise, not all commercial insurance policies insure commercial property. Matter of fact, a Commercial General Liability policy, specifically exempts property. Policies providing coverage for fire damage to a structure already must conform to the provisions of the standard fire policy making this provision unnecessary. (Section 38a-308). Additionally, amending the enumerated statutory sections as provided for in this subsection would completely alter the intent of some of those sections or are meaningless as the enumerated section does not contain the term "fire policy" or the section has been repealed. Making change for change sake is a costly proposition with no demonstrated consumer benefit.

Section 4

Section 4 seeks to remove a vital step in the appraisal process which is designed to bring about resolution to stalled claims. Currently if an insured, or their representative, and the insurer have reached an impasse as to the value of a claim the appraisal clause may be invoked. Current law mandates that each party appoint a "disinterested party" to represent them and to pick a disinterested umpire. The intent of this requirement is for each party to bring in a qualified party who can render a fair assessment of the situation, someone who does not have an interest in the outcome. Section 4's elimination of the "disinterested party" requirement will render the appraisal process moot. Deleting this provision means that the two parties, who have already demonstrated that they reach an agreement, could be the same two parties attempting to settle the claim in the appraisal process. Or that another party with a vested interest may be substituted which will do nothing to bring about resolution. Such an unnecessary change to the appraisal process will only serve to further delay settlement of claims increasing the likelihood of litigation. Unnecessary delay drives up claims and litigation costs consequentially increasing premiums for all policyholders. The "disinterested party" requirement is a vital step that allows the appraisal process to work and should not be changed.

Section 5

It is unclear what the change in Section 5(a) of this bill is seeking to accomplish. The current limitation in Section 38a-313, which this section is amending, clearly applies to the provisions and perils contained in the standard fire policy. It is unclear what the addition of the terms

“homeowners insurance policy” and “commercial property insurance” actually mean in the context of this section. Applying the provisions of Section 38a-313 to all homeowners and commercial policies simply based upon a policy’s title amounts to unworkable overreach.

Subsection (b) of this section improperly removes vital tools for insurers in the investigation and resolution of claims. Subsection (b) would prohibit insurers from setting time parameters for the insured to complete their obligations under the contract as long as the insured provided notice of the claim within 180 days from the date of loss. This provision exists nowhere else and for good reason. First, giving the insured 180 days to report a loss runs contrary to statutory and contractual provisions which require an insured to timely report, mitigate losses and to bring about the timely resolution of claims. Also, permitting an insured an unlimited time to make repairs will result in increased repair costs, additional associated payments (like alternative housing) and may result in duplication of work already performed. One hundred eighty days is excessive and improperly impairs an insurer’s ability to investigate claims as evidence and documentation can become missing or destroyed. If an insured suffers a loss from a fire or has property stolen, why should they be given 180 days to report the loss and an unlimited time to repair or replace?

Limiting an insurer’s ability to set necessary parameters alters the very way replacement policies function. Pursuant to this section an insured could demand full payment regardless of the status of the repair or replacement, changing the fundamental nature of how a replacement policy works. Under a replacement policy an insured is not paid the full replacement value until all repairs or replacement has actually been made. Pursuant to the terms of 5(b) of this bill as long as the insured files a claim within 180 days of the date of loss, an insurer could not refuse to pay the full value of the claim and be subjected to never ending claims.

Section 6

It is unclear what Section 6 is seeking to accomplish. Current statutory language already states that for any condition in a fire policy to be valid it must be contained within the body of the policy. What is unclear is what replacing the term “fire” with “insured peril” does. Would the change contemplated by this section now mean that for any condition associated with any expanded coverage to be applicable it must be found in the policy language and not in a rider where it is normally found? If that is the case, riders will become obsolete removing consumer choice from the market driving up the cost of the basic policy. Demanding that every applicable condition be found within the body of the policy will require that every policy be rewritten. Such

an expensive and time consuming endeavor will only result in creating voluminous meaningless documents.

Property insurance is designed to provide options to the consumer. Currently, an insured can purchase coverage, beyond the basic fire policy, that is designed to meet their insurance needs. HB 5230's attempt to statutorily redefine property insurance products essentially will eliminate consumer choice while doing severe harm to Connecticut's vibrant competitive property insurance market.

HB 5230 alters the very nature of property coverage available in the Connecticut market containing terms and requirements that do not exist anywhere else in the country. It is a well settled practice that the standard fire form must contain certain provisions, a practice used throughout the country. Expanded coverage forms likewise are used by insurers throughout the country. Insurers will have to amend and re-file all their forms and reprogram systems for Connecticut in order to comply with the requirements of HB 5230. The Department will be tasked with having to review each and every filing. This is a costly endeavor for the State and insurers alike that has no demonstrated consumer benefit that cannot be done by July 1, 2012.

The IAC urges your rejection of HB 5230.