



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

S.B. No. 20 - AN ACT CONCERNING THE ASSESSMENT METHODOLOGY USED BY THE INSURANCE DEPARTMENT AND THE OFFICE OF THE HEALTHCARE ADVOCATE

COMMITTEE ON INSURANCE AND REAL ESTATE

February 14, 2012

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on SB 20, which would expand the insurers subject to assessment for the expenditures of the Insurance Department and the Office of the Healthcare Advocate to include all insurers writing policies in the state. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI member companies provide 43 percent of Connecticut's property casualty insurance coverage.

PCI has concerns about this legislation because it will increase the cost of doing business for many property casualty insurers writing policies in Connecticut. This is true both for some Connecticut domestic insurers and those domiciled in other states. While this legislation will reduce costs for some Connecticut domestic insurers who write most of their business in Connecticut and surrounding states, this is not the case for domestic insurers who write policies in many states or nationwide due to the retaliatory tax implications of this legislation. In fact, some domestic insurers estimate that this legislation would result in a significant retaliatory tax impact.

Retaliatory taxes are taxes paid by Connecticut insurers to other states based on a comparison of the aggregate taxes, fees, and assessments imposed by Connecticut to the aggregate taxes, fees, and assessments imposed by the other state. If the aggregate taxes, fees and assessments which Connecticut imposes on insurers not domiciled in the state are higher than those imposed by other states, then Connecticut domestic insurers writing policies in the states with the lower taxes and fees will be required to pay retaliatory taxes to the states with the lower taxes and fees. Therefore, because this legislation would increase assessments for some insurers, this legislation would result in some Connecticut domestic insurers paying additional retaliatory taxes to other states. The true beneficiaries of this legislation under this scenario would be the coffers of other states.

Domestic insurers writing most of their policies in Connecticut and surrounding states support this legislation because it will reduce their growing assessments and, because their out-of-state policies are limited, they will not be subject to significant retaliatory taxes imposed by other states. These insurers support this change because they have seen significant increases in assessments in recent years and believe that it would be more equitable if Insurance Department expenses were spread among all insurers writing policies in Connecticut. While this equity argument is sensible, the

increase in retaliatory taxes which this proposal will cause for many domestic insurers will increase the cost of doing business in Connecticut and causes PCI concern.

Supporters of this legislation paint Connecticut as an outlier relative to its assessment methodology. There is merit to this point in that most states do not assess only domestic insurers for Insurance Department expenses. It should be noted, however, that there is little uniformity among states relative to assessment methodologies for funding insurance regulators and state practices in this regard vary widely across the nation. Some jurisdictions fund insurance regulators entirely from general fund revenue, some require insurers to contribute up to a cap, some require a percentage of premium to be paid to fund the insurance regulator and some even fund other state agencies through the assessment for the insurance regulator. In short, there is little uniformity relative to how insurance regulators are funded so passage of this bill will not bring Connecticut in line with any purportedly uniform approach employed by other jurisdictions.

PCI thanks the Committee for your consideration of our concerns regarding this legislation.