Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

January 31, 2013

HB 5926, An Act Concerning Personal Risk Insurance Rate Filings

The Insurance Association of Connecticut (IAC) supports one part of HB 5926, which would extend the sunset date for "flex rating" for personal lines insurance. IAC opposes another part of the bill, which would reduce the maximum aggregate rate filing eligible for "flex rating" from six to three percent.

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 statewide 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.

Legislation in 2009 and 2011 extended the then-existing sunset date for "flex-rating" provisions by two years. Likewise, HB 5926 would extend the sunset date for two years to July 1, 2015, 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 (C.G.S. 38a-688a) 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 rate 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. States have set flex rate limits at different levels. For example, Kansas has a twelve percent limit. Tennessee's limit is fifteen percent, and South Carolina's is set at seven percent. In 2009, New York readopted a flex rating system, several years after its original law had sunset, as it recognized the market and consumer benefits of such a law.

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. For example, since 2006 overall rate changes in Connecticut for auto insurance have been minimal. 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 are currently less than two hundred insureds in the pool, versus a high of about 200,000 drivers in 1988).

By continuing "flex-rating" until July 1, 2015, HB 5926 will further encourage that competition. IAC urges the Insurance Committee to support such a continuation.

However, lines 10 and 17 of HB 5926 would reduce the twelve-month aggregate limit for the applicability of flex-rating provisions from six percent to three percent. Such a change would negate the speed to market effects of the current law, and compromise the resulting competitive benefits for consumers. Insurance Department personnel will be forced to review additional filings, diminishing their administrative efficiency. IAC strongly objects to such a counterproductive and unnecessary change.