

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 5, 2013

HB 6380, An Act Concerning Property And Casualty Insurance Policies And Home Improvement Contractors

The Insurance Association of Connecticut (IAC) opposes, in part, HB 6380, An Act Concerning Property And Casualty Insurance Policies And Home Improvement Contractors.

Section 1 would require all personal and commercial risk policies covering the repair or replacement of any damaged item, part, component or material to pay for the uniform matching of such repair or replacement to adjacent items, parts, components or materials. We know of no other state that has such a broad and encompassing statutory provision. Section 1 will markedly increase repair costs under personal and commercial risk insurance policies by requiring the repair/replacement of undamaged items, with a corresponding rise in premiums.

Section 1 requires "uniformity" according to highly subjective terms, such as composition, color, texture and quality. Such a vague mandate will only serve to unnecessarily increase disputes, with resulting increased administrative costs. In effect, this language turns a homeowners policy into a

maintenance policy, as it creates a disincentive for policyholders to do proper ongoing maintenance work or to take reasonable measures to limit losses.

Why bother if the insurer is required to pay for it all anyway?

Lines 9-11 of section 1 also create a disincentive for those doing repair or replacement work to do it carefully, as the contractor will now have the potential to get rewarded for shoddy work, while again creating another area of subjective dispute.

As written, section 1 would apply to automobile insurance, and could limit the use of aftermarket parts in the repair of automobiles based on the spurious claims, consistently rejected over the years by the Insurance Committee, that aftermarket parts are not of equivalent quality. Consumers would be unnecessarily harmed by the resulting increase in auto insurance premiums.

IAC opposes subsection (a) and (c) of section 2, as loss history, of whatever size or source, is a strong indicator of the likelihood of future losses under a homeowners' policy. Under subsection (a), the location of the home could make it susceptible to future losses "as a result of a catastrophic event". It is also not clear what is meant by "catastrophic event" in this context. Is it a statewide catastrophe, as declared by the governor, or a personal catastrophe? In subsection (c), the lack of payment on the claim does not necessarily mean a loss did not occur. For example, the amount of damage could be under the policy deductible amount. Similarly, a small loss payout does not mean that the claim should not be considered for rating or underwriting purposes as it

could be indicative of future losses. The prohibitions of subsections (a) and (c) will likely cause unfair subsidization of worse risks by better risks by restricting the insurer's ability to judge appropriately the risk presented.

Relative to section 2(c), we would also point out that insurers do not report, to claims data collection entities, the fact that an insured made an inquiry regarding coverage or deductible questions. Since that data is not collected, such inquiries are not used for underwriting or rating purposes.

IAC would have no objection to section 2(b) if the word "solely" was inserted in line 28 after "based". It appears to have been inadvertently dropped from the subsection.

IAC urges rejection of section 1 and subsections (a) and (c) of section 2 of HB 6380.