



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony

Insurance and Real Estate Committee

March 11, 2014

Raised Bill No. 5502 AN ACT CONCERNING CHANGES TO THE PROPERTY AND CASUALTY INSURANCE STATUTES.

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department appreciates the opportunity to provide testimony regarding H.B. 5502.

The Department recognizes and appreciates that the intent of this bill is to help Connecticut homeowners by removing what some consider a burdensome requirement in protecting their property. However, this bill maybe fraught with unintended consequences resulting in issues of affordability and availability. Financially speaking, this legislation could be setting up coastal homeowners for the "perfect storm." As an agency with a prime mission of consumer protection, the Department respectfully requests that the Insurance and Real Estate Committee not give H.B. 5502 a Joint Favorable Report.

The Department's gravest concerns are found in Section 1, which eliminates the word "Permanent" in section 38a-316a(a). This means insurers would not be able to require policyholders living within 2,600 feet of the coast – the most vulnerable area in the state - to have some form of mitigation to protect their homes from devastating hurricane force winds.

At a time when the state has experienced some of the most damaging storms in recent memory, none of which were officially designated hurricanes, the state of Connecticut should avoid discouraging individuals from taking precautionary measures to protect their property. Ultimately, the property owner will pay the price. The vast majority of insurers did not or could not impose hurricane deductibles for those storms. Legislation promoting coastal leniency, such as this bill and S.B. 278 (the Adverse Weather bill), will likely result in increased rates and/or industry's departure from the Connecticut market.

Between Storm Irene, the October nor'easter and Superstorm Sandy the industry responded to more than 200,000 claims and paid close to \$1 billion in losses. Instead of relaxing standards, we should be doing more to encourage insureds to "mitigate" potential storm loss and we should be

doing everything in our power today to prepare for the day when we are revisited by a Category 3 hurricane similar to the 1938 Long Island Express.

Connecticut has over \$480 billion in coastal property exposure and studies have indicated that should a Category 3 hit today the estimated insured loss in Connecticut would be between \$25 billion and \$35 billion. The economic loss would be even more devastating. The economic loss attributed to Superstorm Sandy was estimated at more than \$50 billion.

As co-chair of the Connecticut Long Term Recovery Committee I have seen firsthand the affects these storms have caused our residents. Many individuals are still not in their homes and are struggling to make ends meet as they have found that their homeowner insurance, flood insurance or FEMA assistance does not come close to covering all their losses. In the recovery world we call this "Unmet Need" and individuals affected by Irene and Sandy are finding in many instances they have tens of thousands of dollars of unmet need. While we are working to help these individuals today we can do more as a state by working to encourage communities to be more resilient and to adopt stronger mitigation standards, which are proven to protect property and minimize future storm victim's losses and hardships.

The Institute for Business and Home Safety calculates that for every \$1 of mitigation that is undertaken there is a \$4 dollar return in loss reduction to that community, and for those insureds who mitigate there is a 78 percent reduction in losses. One way of promoting mitigation is by incentivizing it. Some examples include tax credits, and possibly providing a "sales tax free" incentive during the month of June for building supplies or materials used to mitigate property loss.

The Governor has taken the first and very important step in accomplishing this by announcing the creation of the Connecticut Shoreline Resiliency Fund. He is seeking the assistance of the Legislature to provide an additional \$25 million for this fund to help homeowners elevate their homes, thereby reducing their flood insurance premiums and at the same time making them more resilient to future storms.

For these and many more reasons the Department opposes the change to Section 1 of the bill as it has the potential to significantly impact affordability and availability of homeowners insurance in the state and may ultimately lead to consumers having fewer choices when it comes to finding homeowner insurance. The Department opposes this change and encourages the Committee to refrain from making any changes to the current law regarding the usage of storm shutters.

Additionally, the Department supports the change in Section 3(a) the catastrophe clarification that a company may not decline, cancel or non-renew for any catastrophic loss, but would like to recommend the following addition as we proposed in our earlier testimony under S.B. 278.

We suggest modification to the legislation as follows: Section 3. (a) The declination, cancellation or nonrenewal..... on any loss incurred as a result of one or more catastrophic events. The Committee may also wish to include in this section additional wording that allows for an increase in premium only after the second catastrophe loss.

Lastly, pertaining to Section 5, the Department has concerns with the addition of the following language, “(C) discusses with the insured's insurance company first-party property loss or damage under the insured's policy or a first-party property claim” This language may have the unintended consequence of broadening unnecessarily the definition of public adjuster and to cause individuals who are not adjusting any claims to fall within the definition. We would encourage the Committee to consider removing the language above from the underlying bill.

The Department appreciates the opportunity to offer testimony on H.B. 5502 to the Insurance and Real Estate Committee. Thank you for your consideration, we look forward to working with you on this legislation.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.

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