



Property Casualty Insurers
Association of America
Advocacy. Leadership. Results.

FTR

STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 5064 – AN ACT ESTABLISHING A SINGLE WIND DEDUCTIBLE FOR HOMEOWNERS INSURANCE POLICIES

COMMITTEE ON INSURANCE AND REAL ESTATE

January 29, 2015

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on Senate Bill No. 5064. PCI is a national property casualty trade association comprised of over 1,000 member companies. PCI member companies write 46 percent of all personal lines insurance sold in Connecticut.

Wind and hurricane deductibles are important tools to improve coastal property insurance affordability and availability. These deductibles began to be implemented in the mid-90s following Hurricane Andrew, when large losses led reinsurers to encourage property insurers to better manage their catastrophic risk. According to the Insurance Services Office, hurricanes and tropical storms caused \$158.2 billion in insured losses between 1993 and 2012. As increasingly more homeowners and businesses move into coastal areas, the value of property vulnerable to hurricanes continues to grow and CT has the sixth highest value of vulnerable property in the nation (\$567.8 billion in insured value as of 2013). Wind and hurricane deductibles are important risk sharing mechanisms which allow property owners to retain a small amount of the risk, thereby containing the cost of the policy and allowing insurers to insure more properties. Nineteen states and the District of Columbia (most of the coastal states) have recognized the value of wind and hurricane deductibles as tools to address affordability and availability issues and, accordingly, have approved the use of such deductibles.

This proposed bill would limit the ability of insurers to utilize wind and hurricane deductibles to such a degree as to greatly hamper the effectiveness of these deductibles as a risk management tool in Connecticut. The use of these deductibles is already more limited by Insurance Department guidelines than in most other coastal states. In Connecticut, hurricane deductibles may not exceed two percent over 2,600 feet from the coast and may not exceed five percent within 2,600 feet from the coast. Generally, the more flexible the regulatory provisions are relative to these deductibles, the more effective they are as a tool to encourage insurers to write policies in coastal states because insurers are able to tailor these deductibles so as to appropriately manage their risk. This bill would remove all flexibility in this regard in Connecticut and would restrict these deductibles to their most minimal level.

In addition to greatly reducing the effectiveness of wind and hurricane deductibles as a risk management tool, this bill would eliminate consumer choice by requiring a one size fits all

approach to wind deductibles. Currently, consumers may wish to have a higher deductible so as to reduce their premium payment, but this bill would eliminate this choice for the consumer by requiring that there only be one standard wind deductible at the minimal one percent level. It should be noted that because most policyholders in Connecticut currently have policies with wind or hurricane deductibles of greater than one percent, this bill would reduce the extent to which these policyholders would be sharing in the risk of insuring their properties and would likely have an impact on their premiums. In sum, adoption of this bill would reduce the effectiveness of these deductibles in alleviating property insurance availability and affordability pressures in Connecticut's coastal areas and may result in unintended negative consequences in this regard.

For all of the foregoing reasons, PCI urges the committee NOT to advance this bill.