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STATE OF CONNECTICUT

INSURANCE DEPARTMENT

**Testimony of the
Connecticut Insurance Department
Before
The Insurance and Real Estate Committee
March 5, 2015**

**Raised Bill No. 6865 AN ACT REQUIRING CERTAIN DISCLOSURES CONCERNING
COINSURANCE CLAUSES IN COMMERCIAL INSURANCE POLICIES AND CONTRACTS**

Chairmen Crisco and Megna, Ranking Members Kelly and Sampson, and Members of the Committee, the Insurance Department appreciates the opportunity to submit written testimony on Raised Bill No 6865.

The Department opposes this Bill and would encourage the Committee not to prohibit the use of coinsurance clauses from a commercial insurance policy as this is an important provision which serves several purposes. Coinsurance is a property insurance provision that reduces the insured's loss recovery if the limit of insurance purchased by the insured is not at least equal to a specified percentage (commonly 80 percent) of the value of the insured property. For example, if a building valued at \$250,000 is insured with a policy containing an 80% coinsurance clause, the policyholder must purchase at least \$200,000 in coverage. If the policyholder purchased less than \$200,000, he or she would be responsible for the proportionate share of the loss.

By elimination of coinsurance as proposed in this legislation, many insureds will receive a substantial rate increase, as insurers will not be permitted to issue a policy for less than 100% replacement value. Therefore, many commercial risk consumers will lose the ability to request a coinsurance rating option to substantially lower their premium. We believe this will disrupt the commercial market for property insurance and may cause the unintended consequence for consumers. To ensure a consumer is fully aware of the coinsurance clause and how it works the Department would support the "disclosure" portion of this bill so all commercial insureds are aware of the coinsurance provision and the point in which it will be triggered. As the Department does not regulate forms and rates of surplus lines (non-admitted market), all references to "nonadmitted" should be removed.

The Connecticut Insurance Department appreciates this opportunity to comment on and respectfully asks that Raised Bill 6865 not be given a Joint Favorable Report.

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.