INSURANCE ASSOCIATION OF CONNECTICUT

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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

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HB 6920, AN ACT CONCERNING REVISIONS TO THE PROPERTY AND CASUALTY STATUTES

I am Eric George, President of the Insurance Association of Connecticut (IAC). The IAC opposes HB 6920, An Act Concerning Revisions to the Property and Casualty Insurance Statutes.

HB 6920 would have a direct and adverse effect on the property casualty insurance marketplace in Connecticut, to the detriment of personal and commercial insurance consumers across the state.

IAC opposes section 2, which would prevent homeowners insurers from using rating plans with territorial classifications that are smaller than a zip code or that recognize the property's proximity to another dwelling. Insurers' territorial classifications are based on actuarially sound data, as they seek to price the cost of the insurance product according to the risk presented. Requiring that classifications be no smaller than a zip code will prevent proper cost-based pricing, especially in coastal areas where the likelihood of risk can vary greatly within the same zip code. Section 2 would cause the unfair shifting of premium costs from higher risk to lower risk properties, forcing some risks to subsidize others due to arbitrary zip code boundaries. Territories should be established using relevant data, not by zip code lines having no relationship to insurance risk.

Preventing an insurer from recognizing the proximity of one property to another in its rating plan makes no sense. It is a simple fact that, with increased density of residential dwellings, there is a greater likelihood that a loss of some magnitude on one property could cause damage to a neighboring property, especially in instances of fire. In order to be fair and equitable, rating plans should be able to reflect that fact.

IAC opposes section 3, which would require insurers and insurance producers to make a "reasonable attempt" to get a homeowners insurance policy for a prospective insured from a surplus lines insurer before placing the risk in the residual market mechanism. It is not an insurer's responsibility to find someone insurance with another insurer, surplus lines or otherwise. Moreover, section 3 is based on a vague and undefinable term ("reasonable attempt"), and would unfairly subject insurers and insurance producers to complaints from individuals that that person's concept of "reasonable attempt" has not been met.

IAC opposes section 4 of HB 6920, which in subsection (d) would prevent insurers from requiring a minimum amount of coverage in a homeowners policy. Such a prohibition would result in inadequate levels of coverage for many insureds, especially those who later experience large losses. A short-sighted attempt by an insured to reduce premiums by reducing coverages will only set that insured up for financial disaster upon the occurrence of a major loss. Such a reduction in coverage may be contrary to the insured's mortgage obligation. Subsection (d) would also subject insurers and insurance producers to unfair and spurious complaints and potential liability in instances where the reduced coverage was not adequate to cover a loss, as the insured could falsely assert that he or she was underinsured due to the misdeeds of the insurer or producer. In fact, state regulations currently prohibit insurers from requiring homeowners insurance policies to be purchased in amounts greater than 80% of replacement cost value.

Subsection (e)(1) would prohibit insurers from offering a deductible amount on a homeowners policy unless it is offered statewide. IAC opposes such a prohibition, as deductible levels for specific areas can be warranted due to the greater likelihood of loss, especially catastrophic loss. Restricting an insurer's ability to assess risk, and to construct products accordingly, will only serve to increase premium costs and reduce competition for that business in the homeowners insurance marketplace.

Subsection (e)(2) would prohibit insurers from imposing a minimum deductible on a homeowners insurance policy. Such a prohibition would cause an increase in claims costs due to the likely influx of smaller, minor claims. Premiums would have to be increased to reflect the fact that claims costs, and the corresponding administrative costs, have risen as a result. Deductibles are valid underwriting tools that establish cost-sharing between the insured and the insurer and facilitate the availability of insurance coverage in the standard market.

IAC opposes section 5, which would prohibit a commercial property fire insurance policy from having a coinsurance clause. Coinsurance clauses are a way for insurers to stabilize commercial insurance costs and encourage maintenance of adequate levels of insurance, allowing insurers to properly manage their risk. In addition, if section 5 is adopted commercial insureds will not be able to make use of a coinsurance provision to reduce what otherwise would be their premium for the commercial fire policy. Section 5 would be highly disruptive to the commercial insurance market in this state and result in increased costs for consumers.

Section 6 would prevent automobile insurers from requiring a minimum coverage amount that is greater than the statutory minimum for purposes of issuing or renewing an automobile policy. IAC sees no reason for such a restriction, as it could have a counterproductive effect on the availability of automobile insurance in this state. Automobile insurance is readily available across the state in the standard market to meet consumers' varying demands, as evidenced by the fact that there are currently less than 200 insureds in the state's assigned risk pool (versus a high of about 200,000 drivers in 1988).

Connecticut consumers are currently benefitting from a highly competitive property casualty insurance marketplace for both personal and commercial lines. Insurers are aggressively competing for business on the basis of price, product and service.

By arbitrarily prohibiting or restricting the use of legitimate property casualty insurance policy provisions and limiting the insurer's ability to accurately price those products and manage risk, HB 6920 will do real harm to that marketplace, leading to less consumer choice, higher insurance premiums, and unfair cross-subsidization of premiums. Consumers would only lose with the passage of HB 6920.

IAC urges rejection of HB 6920. Thank you for the opportunity to present IAC's viewpoint.