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STATEMENT
PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 6920– AN ACT CONCERNING REVISIONS TO THE PROPERTY AND CASUALTY INSURANCE STATUTES

COMMITTEE ON INSURANCE AND REAL ESTATE
March 12, 2015

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on House Bill No. 6920. PCI is a national property casualty trade association comprised of over 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI member companies write 36% of all property casualty insurance sold in Connecticut.

PCI has serious concerns with a number of the provisions in this bill. PCI is concerned that this bill may have unintended consequences which may reduce insurance choices for consumers, make insurance more expensive and make Connecticut a less attractive market for insurers to consider writing policies. Our concerns with the various sections of this bill are as follows:

Section 2: Prohibiting Homeowners Insurers from Considering Territorial Classifications Smaller Than a Zip Code or the Proximity to another Occupied Residential Dwelling.

PCI is concerned that the prohibition against considering territorial classifications smaller than a zip code are unnecessary and may inhibit innovation. Some insurers may wish to more precisely segment their risk so as to ensure the more accurate pricing of their policies. If this prohibition is set forth in statute, innovation in this regard may be stifled. Additionally, to the extent that this prohibition would prevent insurers from rating risks appropriately, it will result in some policyholders paying less than they should for homeowners insurance and, conversely, some policyholders paying more than they should for insurance because they will be subsidizing the premiums of those who are paying less. PCI would submit that this would not be fair to Connecticut homeowners who should pay premiums based upon the risk associated with their home, without limitations based on arbitrary zip code lines.

PCI is also concerned that the prohibition against considering proximity to another occupied residential dwelling may prevent insurers from considering appropriate risk factors related to dwellings in close proximity to the insured dwelling. For example, if dwellings are in very close proximity or share a common wall, there may be an increased risk of fires spreading between the structures which would merit consideration. Any major loss to one dwelling could impact another dwelling when the dwellings are in close proximity and, by prohibiting consideration of proximity of dwellings, this bill would prohibit insurers from considering this factor. Additionally, this provision could prohibit

consideration of factors involved in rating multi-unit dwellings (when there are four or fewer dwelling units) which may lead to the inappropriate pricing of policies for such dwelling.

Section 3: Requiring insurers or producers to make a reasonable attempt to procure homeowners insurance from a surplus lines insurer prior to recommending a residual market mechanism.

PCI has concerns with this provision because it is unclear what an insurer or producer would need to do in order to meet the "reasonable attempt" standard set forth in the bill. The ambiguous nature of this requirement would likely result in confusion and unnecessary disputes.

Section 4: Prohibition against the following for homeowners insurance policies: 1) requiring a minimum coverage amount; 2) offering a deductible unless offered on a statewide basis; and 3) imposing a minimum deductible amount.

Current Insurance Department regulations already prohibit insurers from requiring homeowners policies to be purchased in amounts above 80% of replacement value (Section 38a-824-3 (2)). This bill would go even further than this and prohibit any requirements relative to minimum coverage. PCI finds this highly problematic as it may lead to situations in which homeowners purchase insufficient coverage, only to face a potentially significant uncovered loss following a disaster. Under these circumstances, homeowners may not have sufficient funds to rebuild their homes - a situation which would not be beneficial for anyone. PCI would submit that consumers should be encouraged to purchase adequate insurance coverage and that this bill could have the opposite result.

PCI is also opposed to the prohibition against a minimum coverage amount because it would prohibit insurers from targeting certain segments of the market in which an insurer may choose to specialize. Some business models of insurers may focus on targeting certain segments of the market and having coverage minimums may be a part of this business model. Specializing in certain segments of the market allows insurers to gain expertise in addressing the needs of the targeted market segments which can be beneficial. By prohibiting coverage minimums, this bill would prohibit insurers from specializing, which may not be beneficial to the consumer who may wish to have a policy which is more tailored to their needs.

PCI also strongly opposes measures to prohibit insurers from offering a deductible unless offered on a statewide basis. Higher deductibles may be appropriate in higher risk areas as they allow policyholders to share a portion of the risk associated with insuring a higher risk property and allow insurers to contain premiums as a result of this risk sharing. For example, hurricane deductibles are currently authorized for coastal areas in Connecticut and the existence of these deductibles enables insurers to share the risk associated with these higher risk properties and enables insurers to write more policies in high risk areas. Hurricane deductibles are limited in CT by statute and Insurance Department guidelines. This bill would prohibit higher deductibles in coastal areas and may require non-coastal homeowners to subsidize the premiums of coastal homeowners. In PCI's view this is neither appropriate, nor fair.

PCI also opposes the prohibition on imposing a minimal deductible amount. This would require insurers to offer zero deductible policies, which are generally not common for homeowners insurance policies. A policy with no deductible would require insurers to cover even very small losses and may encourage the filing of frivolous, or even fraudulent, claims. Additionally, the cost of adjusting a small, "nuisance" claim may even exceed the amount of the claim, which would not be beneficial as it would add unnecessary costs to insurance.

PCI also opposes the minimum deductible amount prohibitions because it would prohibit the risk sharing which currently takes place with hurricane deductibles and deductibles generally. As previously indicated, hurricane deductibles help to make insurance more available and affordable in coastal areas and prohibiting these deductibles may make it more difficult for coastal homeowners to find coverage and such coverage would be more expensive. In addition, the use of deductibles is a valid underwriting tool and minimum deductible requirements may enable insurers to continue to provide coverage on risks with a poor loss history or homes which have an elevated risk due to other reasons.

Section 5: Prohibiting coinsurance clauses in commercial fire insurance policies issued by admitted and nonadmitted insurers.

PCI opposes this Section because it would prohibit insurers from issuing policies for less than full replacement value. Accordingly, this would remove the option that Connecticut commercial policyholder currently have of securing less coverage with a coinsurance clause at a reduced premium. Business policyholders may have unique insurance needs and they should be allowed to choose the policy that best fits their business needs. Because this Section would reduce insurance choices for Connecticut businesses and impose a more expensive one-size-fits-all approach on all businesses, PCI opposes this requirement.

PCI is particularly opposed to the imposition of this prohibition in the surplus lines context. Surplus lines or nonadmitted insurance represents that insurance coverage that consumers cannot otherwise find available in the admitted market of private insurers licensed to transact business in the state. In that situation, Connecticut surplus lines law permits the licensed surplus lines broker to export out of the jurisdiction of the state and procure such insurance coverage with an unauthorized but eligible surplus lines insurer. Critical however to this placement is the acknowledgement that such insurance, not able to be placed in the admitted market, represents a unique or nonstandard risk. As a result, the surplus lines insurer, in an effort to properly underwrite that risk, must rely on the flexibility and freedom to negotiate the coverage form. Accordingly, it would be detrimental to the availability of such insurance to impose the additional coinsurance clause requirement set forth in section 5 of this bill.

Imposition of the coinsurance clause prohibition in the surplus lines context may reduce the availability of coverage in the surplus lines market and may cause insurance availability problems for commercial risks. This may leave these risks, which would have already been declined by the admitted market, with very limited insurance options.

Section 6: Prohibiting auto insurers from requiring minimum coverage amounts in excess of the minimum financial responsibility requirements.

PCI opposes this provision because it would prohibit insurers from targeting certain market segments and managing their risk and portfolio. This provision would make Connecticut an outlier among other states and may make Connecticut a less attractive state for insurers to consider writing policies. The impact of this would be to potentially reduce insurance choices for Connecticut consumers and potentially render Connecticut's auto insurance market less competitive.

Accordingly, for the foregoing reasons, PCI urges your Committee NOT to advance this bill.