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State Farm

TESTIMONY

INSURANCE AND REAL ESTATE COMMITTEE

March 12, 2015

Raised Bill No. 6920 - AN ACT CONCERNING REVISIONS TO THE PROPERTY AND CASUALTY INSURANCE STATUTES

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, State Farm Fire and Casualty Company ("State Farm") appreciates the opportunity to provide testimony regarding HB 6920.

State Farm opposes HB 6920 and respectfully requests the Insurance and Real Estate Committee to reject HB 6920. As the nation's number one homeowners insurer licensed in all states and handling coastal claims from every hurricane to impact the United States in at least the past 50 years, State Farm is uniquely positioned to analyze and understand the potential ramifications of HB 6920. Two provisions of HB 6920 prohibiting minimum deductibles and restricting territorial rating would negatively impact the Connecticut homeowners market and Connecticut consumers by: (1) placing upward pressure on homeowners insurance rates; (2) creating disaster exposure issues for insurers; and (3) causing the subsidization of homeowners insurance rates for higher risk properties by the rates of lower risk properties.

Section 4 of HB 6920 prohibits insurance companies from requiring any type of minimum deductible as a condition to issuing a homeowners insurance policy. Connecticut would be the **only state** to prohibit minimum deductibles. This would require insurers to offer first dollar coverage on all homes. Homeowners insurance is not designed for first dollar coverage or to be a maintenance policy, but rather is designed to cover loss beyond what a homeowner can reasonably afford to bear on his/her own. Deductibles are a standard insurance mechanism that reduce insurance premiums, incentivize insureds to maintain their property and take reasonable efforts to prevent loss, and manage an insurer's disaster exposure to guard against insurer insolvency.

The premium differences for first dollar coverage are significant. Consumers would likely pay a premium twice as high as a consumer with a typical minimum all-peril deductible. In addition, first dollar coverage will lead to more claims as deductibles will no longer eliminate small dollar claims. This increase in claims will lead to higher claim costs, placing upward pressure on rates.

The elimination of minimum deductibles will also prohibit insurers from requiring hurricane deductibles for at-risk properties. Hurricane deductibles reduce premium to lower than they would otherwise be in areas at risk for hurricane damage while also providing insurers a mechanism to manage coastal exposure. Currently the Connecticut Insurance Department already restricts allowable maximum minimum hurricane deductibles to 5% within 2600 feet of the coast and 2% for certain areas more than 2600 feet from the coast. The prohibition on minimum hurricane deductibles would drive up rates and would exacerbate Connecticut insurer exposure management problems by nearly eliminating all means for an insurer to manage coastal disaster exposure.

Connecticut law already inhibits an insurer's ability to effectively manage coastal exposure through underwriting. Insurers are currently prohibited from underwriting based on: (1) location of the property[1]; (2) lack of coastal loss mitigation devices[2]; and (3) catastrophe claims.[3] Last year while opposing HB 5502, the Connecticut Insurance Department testified that further restrictions on an insurer's ability to appropriately manage the risk of coastal disaster exposure "has the potential to significantly impact the affordability and the availability of homeowners insurance in the state and may ultimately lead to consumers having fewer choices when it comes to finding homeowners insurance."[4] The Insurance Department also testified: "Legislation promoting coastal leniency . . . will result in increased rates and/or industry's departure from the Connecticut market." Preventing minimum hurricane deductibles "promotes coastal leniency" and takes away one of the only tools that remain for insurers to manage coastal disaster exposure.

Connecticut is no stranger to hurricanes, experiencing at least 10 hurricanes in the past 78 years. If another hurricane similar to the Great New England Hurricane of 1938 hits Connecticut, the amount of damage would likely be devastating. In fact, the Connecticut Insurance Department testified that estimates indicate that if a CAT 3 Hurricane hit Connecticut that insured losses <u>just in Connecticut</u> would be between $25 and $35 billion.[5] This is compared to the $18.75 billion in insured losses <u>in all states</u>[6] impacted by Super Storm Sandy and the $1 billion in insured losses experienced in Connecticut.[7] The 2014 U.S. National Climate Assessment found "[t]he intensity, frequency, and duration of North Atlantic hurricanes, as well as the frequency of the strongest (Category 4 and 5) hurricanes, have all increased since the early 1980s. The relative contributions of human and natural causes to these increases are still uncertain. Hurricane-associated storm intensity and rainfall rates are projected to increase as the climate continues to warm."[8] As the intensity, frequency, and duration of hurricanes that threaten Connecticut increase, further restricting an insurers ability to manage coastal exposure could threaten the Connecticut homeowner insurance market.

Section 2 of HB 6920 prohibits insurers from adopting rating territories smaller than a zip code. Zip codes were created to facilitate rural mail delivery, and have nothing to do with insurance. Placing size restrictions on territorial rating ignores proven methodologies that most accurately match price to risk. The impact of such restriction will be felt in all Connecticut zip codes and will force homeowner rates of those with higher risk properties to be subsidized by the rates of lower risk properties. A great example of the inequity this creates is in coastal zip codes. Several coastal zip codes (i.e. 06437, 06443, 06371) are large and go far inland. Common sense tells us that all other factors being equal a home on the beach in a zip code with 47.1 square miles (06437) would be at higher risk of hurricane exposure than a home the furthest away from the shore in that same zip code. Proven scientific mapping indicates the risk of wind and storm surge can vary greatly in areas much smaller than zip codes based on several

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[1] CONN. GEN. STAT. § 38a-824; CONN. AGENCIES REGS. § 38a-824-3; Conn. Ins. Bulletin PC-43 (Dec. 20, 2000).

[2] CONN. GEN. STAT. § 38a-316a; Conn. Ins. Dep't, Amended and Restated Filing Review Guidelines Related to Underwriting Coastal Homeowners' Insurance Policies (July 25, 2014).

[3] CONN. GEN. STAT. § 38a-316d

[4] *An Act Concerning Changes to the Property and Casualty and Surplus Lines Insurance Statutes: Hearing on HB 5502 Before the Insurance and Real Estate Comm.* (2014) (testimony of Connecticut Insurance Department).

[5] *Id.*

[6] Insurance Information Institute, Hurricanes, http://www.iii.org/fact-statistic/hurricanes (last accessed March 10, 2015).

[7] *An Act Concerning Changes to the Property and Casualty and Surplus Lines Insurance Statutes: Hearing on HB 5502 Before the Insurance and Real Estate Comm.* (2014) (testimony of Connecticut Insurance Department).

[8] Walsh, J., D. Wuebbles, K. Hayhoe, J. Kossin, K. Kunkel, G. Stephens, P. Thorne, R. Vose, M. Wehner, J. Willis, D. Anderson, S. Doney, R. Feely, P. Hennon, V. Kharin, T. Knutson, F. Landerer, T. Lenton, J. Kenney, and R. Somverville, 2014: Ch. 2: Our Changing Climate. *Climate Change Impacts in the United States: The Third National Climate Assessment*, J. M. Melillo, Terese (T.C.) Richmond, and G. W. Yohe, Eds., U.S. Global Change Research program, 19-67.

factors such as roads, drainage pipes, storm water reservoirs, development, etc. State Farm believes that it can best serve its policyholders and Connecticut homeowners by charging rate that most closely matches the risk of the home. It is unfair to require a homeowner with a lower risk home to pay higher insurance rates in order to reduce the homeowners rate of an individual who buys a home that is most at risk. That is exactly what HB 6920 will require if passed.

For the reasons stated above, State Farm respectfully urges the Insurance and Real Estate Committee to reject HB 6920.