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Testimony of the American Insurance Association on HB 6920

An Act Concerning Revisions to the Property and Casualty Insurance Statutes

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Good evening. I am Alison Cooper and I serve as the Northeast Regional Vice President for the American Insurance Association. I appreciate the opportunity to testify today.

Since its beginnings in 1866, AIA has served as America's leading property-casualty insurance trade association. Representing more than 300 insurers, AIA member companies are among the ranks of the most influential insurance companies across the United States and around the world. Many AIA members are pleased to serve the automobile and property insurance needs of Connecticut residents and are very familiar with the laws and regulations applying to these important consumer products. Consequently, AIA and its members are well positioned to add to the consideration of HB 6920.

As drafted, HB6920 will substantially alter many aspects of the Connecticut insurance market place, particularly for homeowners or residential insurance. The changes proposed will seriously complicate insurers' ability to do business in Connecticut and have a negative impact on consumers. As a result, we must oppose the legislation as written. There are several examples of how the legislation will impact the insurance market place.

NO TERRITORIAL RATING SMALLER THAN ZIP CODES WILL HARM CONSUMERS AND COMPETITION

The bill will prohibit using territorial classifications smaller than a zip code in rating plans for homeowners insurance. Preventing insurers from establishing territories that make sense and that allow premiums to more accurately reflect risk will adversely impact consumers. Zip codes can, of course, be large areas and they can have many differences within them that result in differing risk characteristics that rates need to reflect.

To demonstrate this we have attached to our testimony two screen shots of Connecticut zip codes as maps that can be found at United States Zip Codes.Org at http://www.unitedstateszipcodes.org/. In those documents we have highlighted just a few of the very large zip codes found in Connecticut—06371, 06437, 06443, 06058, 06069 and 06098.

People familiar with those zip codes know that they can span an area of 10 miles and more in length and include coastline, rivers, lakes, hills, fields, towns, rural areas, suburbs and cities. In other words, there can be sizeable risk diversity within each of these zip codes. Some coastal area zip codes straddle the coastline, while others extend many miles inland. Zip codes come in such an infinite variety of shapes and sizes that following the zip code lines as drawn might not always result in consumers getting the most fair and accurate risk-based pricing. Thus, by relying solely on zip codes for rating, some people will pay too much for insurance and others will not pay enough. That is a bad public policy outcome if we care about the health of the Connecticut marketplace.

LIMITING THE USE OF PROXIMITY TO OTHER OCCUPIED RESIDENCES IS A MISTAKE

The legislation would prohibit homeowners' insurers from using proximity to another occupied residence in rating plans. Such a move is contrary to people's own experience and the need for insurance to reflect risk. Such a move would also be contrary to section 38a-686 (b)(1) which currently permits insurers to give consideration, to the extent possible, to conflagration and catastrophe hazards. I would argue that proximity to other structures is certainly a conflagration hazard and a catastrophe hazard. To provide you with a case in point: if you recall the tragedy that occurred in the Breezy Point neighborhood in New York City, approximately 130 houses burned to the ground due to fire which occurred as a result of Superstorm Sandy. One of the biggest contributing factors to this catastrophe was the extraordinary density of the housing. Insurers should be permitted to use these factors as a way of accurately reflecting insurance risk.

INSURERS SHOULD NOT BE FORCED TO FIND ALTERNATIVE COVERAGE FOR APPLICANTS.

The bill would require an insurer or insurance producer to make a reasonable attempt to procure homeowners insurance from a surplus lines insurer before recommending or issuing coverage under the residual market. While insurers, of course, support applicants looking for private market alternatives before resorting to the FAIR plan, as we understand the provision here, this would force insurers themselves to procure insurance for someone from other insurers who could be unrelated to the insurer. That is, however, the job of the individual or insurance agents and brokers; not insurers, who may not even have surplus lines alternate.

DO NOT PROHIBIT INSURERS FROM OFFERING COVERAGE THEY CAN WRITE

This bill prohibits insurers from requiring a minimum amount of coverage as a condition to issue or renew a homeowner's insurance policy. Thus, an insurer could not even require adequate coverage to pay off a mortgage for example. Aside from leaving the policyholder exposed on its mortgage debt, this would, of course, result in the applicant or policyholder being in breach of their mortgage obligations. Moreover, this could result in blight within communities as properties are not able to be rebuilt after losses because they were not adequately insured. Insurers and policyholders need to craft coverage meeting policyholder needs and which insurers are willing and able to write.

PROHIBITING INSURERS FROM TAILORING DEDUCTIBLES TO RISK AND CONSUMER NEED IS A MISTAKE

This bill would prohibit insurers from offering a deductible for a homeowner's insurance policy that is not offered on a state-wide basis. In other words, deductibles could not be tailored to particular risks associated with particular locations. So, an insurer would have to permit a deductible particular to a certain location to be used elsewhere. This will result in some having deductibles that are better than the risks would otherwise permit. As a result, one can imagine that insurers may need to revisit all their deductible offerings to avoid situations in which some consumers are obtaining deductibles not supported by the risks they face. Deductibles are often warranted in order to ensure that risks are priced appropriately.

PROHIBITING INSURERS FROM ESTABLISHING MINIMUM DEDUCTIBLES LIMITS CONSUMER CHOICE

This bill would prohibit insurers from establishing a minimum deductible for homeowner's insurance policies. Deductibles are a means for consumers to control premiums and permit insurers to establish and understand their own exposure and, thereby, encourage insurers to deploy capital in Connecticut. Moreover, because the deductible is an insured's way of assuming some of the risk of loss, they not only help control premiums, they encourage prudent behavior and mitigation, etc. as the insured has an incentive to reduce their own potential responsibility. Limiting flexibility in deductibles will reduce consumer choice while limiting insurers' own ability to understand and spread risk appropriately among policyholders. The reality is that this will only make insurance harder to purchase and more expensive for all residents of Connecticut.

PROHIBITING COINSURANCE CLAUSES IN COMMERCIAL PROPERTY INSURANCE HARMS THE MARKET

This bill would prohibit the use of coinsurance clauses in commercial property insurance, a long established practice. Coinsurance clauses are an important vehicle for insurers to share risk and assume the amount of risk they believe they can take on in return for the premiums charged. Moreover, these clauses encourage proper reporting of property value by business consumers so that they do not wind up under insured in the event of loss which can harm the ability to rebuild, pay off loans, etc. Limiting the availability of these clauses may harm the commercial property insurance market in Connecticut.

LIMITING AUTO INSURERS FROM ESTABLISHING THE PROPER LIMITS OF COVERAGE IS A MISTAKE

This bill would also prohibit automobile insurers from requiring a minimum amount of coverage greater than the amounts set forth in the financial responsibility law. Limiting the ability of insurers to craft coverage consistent with consumer demand or the insurers' perception of the risk will likely harm insurance capital formation in Connecticut. For example, some insurers may want and need higher limits because of a consumer's prior driving record and the possibility they could pose an enhanced risk to the driving public. Connecticut should not limit the ability of insurers to establish limits they believe are needed as that could negatively impact the overall automobile insurance market.

Overall, we believe that this legislation would be highly detrimental to the insurance marketplace in Connecticut and will do real harm to policyholders, resulting in reduced consumer choice, reduced competition, increased premiums and inappropriate cross-subsidization of costs.

Thank you for considering our comments. I am happy to answer any questions you might have to the best of my ability.

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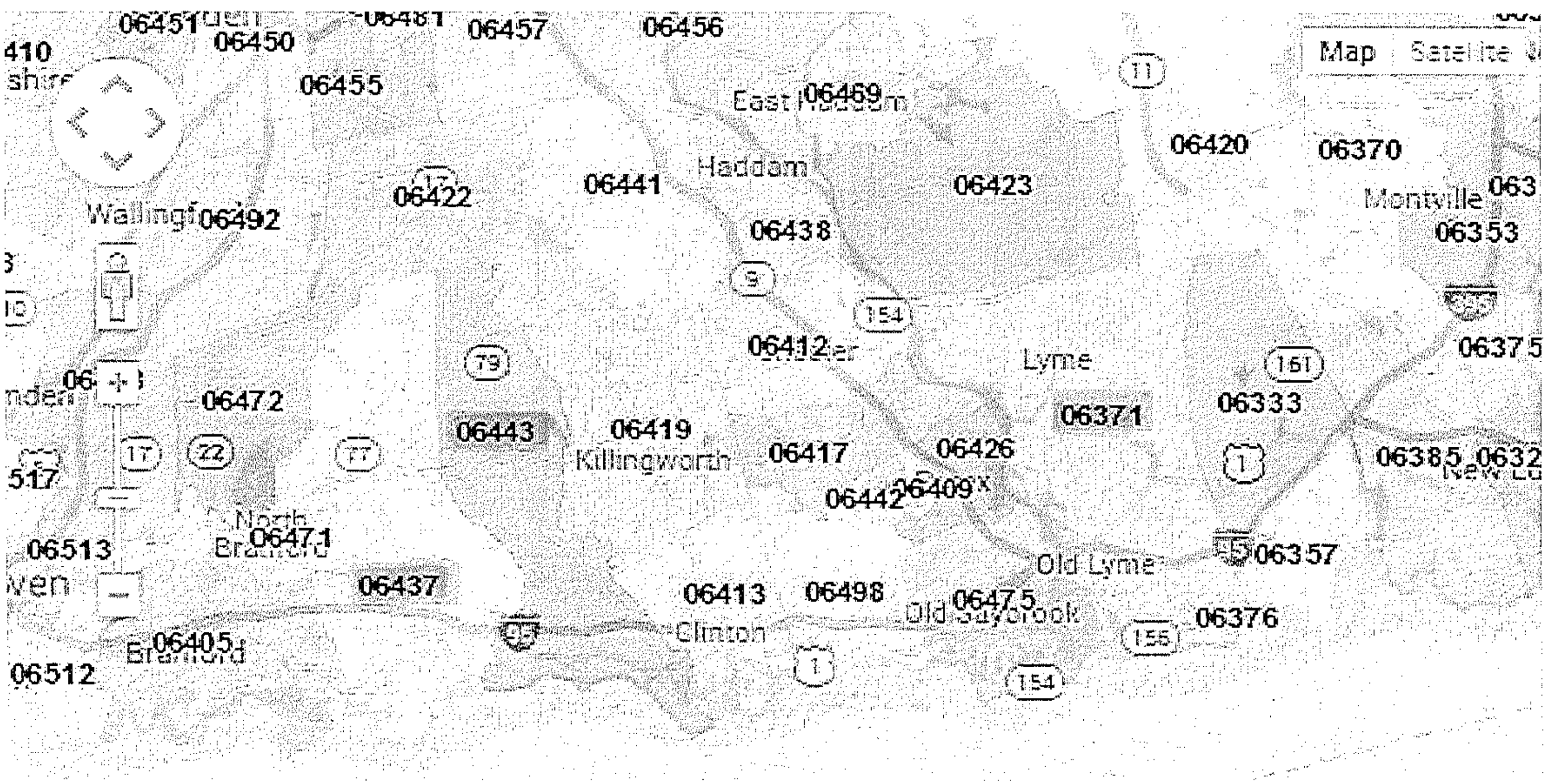

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