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# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### Testimony

#### Insurance and Real Estate Committee

March 3, 2015

#### **House Bill No. 6868 (Raised) An Act Concerning the Connecticut Insurance Guaranty Associations.**

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, thank you for raising Raised Bill No. 6868, An Act Concerning The Connecticut Insurance Guaranty Associations. This Insurance Department proposal will amend the statutes governing Connecticut's two insurance guaranty associations: the Connecticut Insurance Guaranty Association (CIGA) and the Connecticut Life and Health Insurance Guaranty Association (CLHIGA), which serve as a safety net to help protect insurance consumers from financial loss when a Connecticut licensed insurance company becomes insolvent and is no longer able to meet its obligations.

Raised Bill 6868 amends the statutes governing CIGA and CLHIGA in the following ways:

#### **Amendments to the CIGA Act**

##### **Section 1.**

Amends the definition of "covered claim" in section 38a-838 to specify when there will be CIGA coverage for claims arising out of policies written by one insurer that were subsequently assumed by another insurer which then becomes insolvent and to clarify state of residence. The revision makes clear that any claim arising out of a policy originally issued by a surplus lines insurer or risk retention group will remain outside the scope of CIGA coverage.

Amends the definition of "insolvent insurer" in section 38a-838 to require a final order of liquidation with a finding of insolvency before CIGA will be activated to provide protection, which is the standard in most states. The CIGA Act currently only requires a declaration of insolvency by a court of competent jurisdiction to trigger CIGA to respond to the insolvency. The Department proposes this change to the CIGA Act to avoid a situation in which an insurer is placed into rehabilitation

proceedings with a court order that declares the insurer to be insolvent which would trigger CIGA to be activated prematurely to handle the insolvency at a time when the receiver of the insurer may not have access to the claim files and basic policyholder information to timely transmit the information to CIGA. Changing the definition of insolvent insurer as proposed will align Connecticut with most other states and thereby avoid unnecessary costs to CIGA and the receivership estates.

### **Section 2.**

Amends section 38a-841(a) to make a couple of technical changes and to increase the maximum CIGA coverage for claims (other than for workers' compensation) from \$400,000 to \$500,000 for insurers placed into liquidation with a finding of insolvency on or after October 1, 2015. Raising the limit of guaranty association coverage to \$500,000 will offer additional protection to Connecticut residents and will be consistent with the level of coverage found in the National Association of Insurance Commissioners Property and Casualty Insurance Guaranty Association Model Act. At least 9 nine states currently provide the same or higher level of coverage. This change is of great importance to those few consumers who may face a large insurance claim, such as the loss of their home by fire and then have misfortune to have their insurer become insolvent. Insurers that are assessed by CIGA to pay covered claims of Connecticut consumers have, since 2000, enjoyed the statutory right to deduct 100% of such assessments from the premium taxes they pay to the State of Connecticut. Insurers, therefore, should not object to such modest increase in CIGA coverage.

### **Section 3.**

Makes minor technical changes to section 38a-843.

### **Amendment to the CLHIGA Act.**

### **Section 4.**

Amends the CLHIGA Act section 38a-860(f): (1) To make several minor technical changes; and (2) to expressly exclude CLHIGA coverage for contracts offering hospital, medical, prescription drugs or other health care benefits pursuant to the federal Medicare Part C or D. This amendment will reduce ambiguity in the law by conforming the CLHIGA Act to the NAIC Life and Health Insurance Guaranty Association Model Act exclusion for Medicare Parts C and D which has been adopted in 37 states.

The Insurance Department once again thanks the Committee for raising H.B. 6868 and asks that the Insurance and Real Estate Committee act favorably on this bill.