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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 5520– AN ACT CONCERNING HOMEOWNERS AND MOTOR VEHICLE INSURANCE POLICIES

COMMITTEE ON INSURANCE AND REAL ESTATE

March 8, 2016

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on House Bill No. 5520. PCI is a national property casualty trade association comprised of over 1,000 member companies. 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 and/or add unnecessary costs to insurance. Our concerns with the various sections of this bill are as follows:

Section 1: Definition of Homeowners Insurance

PCI is concerned that this definition is too all encompassing and would make certain policies which are not homeowners insurance policies subject to all of the provisions of the law to which homeowners insurance policies are subject. For example, a commercial policy could include coverage for a owner-occupied home with four or fewer dwelling units and, pursuant to the provisions of the homeowners insurance definition in this bill, such a policy would be improperly deemed a homeowners insurance policy. Similarly, a dwelling fire policy could improperly fall within the homeowners insurance definition in this bill.

Section 2: Prohibiting Homeowners Insurers from Considering Proximity to another Occupied Residential Dwelling.

PCI is 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 Auto Insurance Notices of Cancellation to be Sent by Registered or Certified Mail, Return Receipt Requested

PCI has concerns with this provision because it will add unnecessary costs to auto insurance and will add ambiguity to the issuance of cancellation notices. Current law requires insurers to maintain proof of mailing through utilizing registered or certified mail or maintaining a certificate of mailing evidencing that the notice was sent. Such options ensure that the insurer maintains proof of mailing in a manner which is cost effective and clear. PCI is unaware that there is a widespread problem in Connecticut relative to the issuance/receipt of cancellation notices. Mandating that cancellation notices be sent by registered or certified mail, return receipt requested, would add significant unnecessary costs to auto insurance, without significant consumer benefit.

The return receipt requested requirement would also potentially add significant ambiguity, burdens and potential for fraud relative to auto insurance policy cancellations. It is unclear what the effect would be on whether a policy is deemed to be effectively cancelled if the addressee has a Post Office box or fails to accept the letter. If no one accepts the letter, can the policy not be cancelled? Would the insurer be required to pay for multiple attempts at delivery? If someone other than the recipient accepts delivery, is the cancellation effective? In short, this would add significant ambiguity to whether a policy is cancelled, potentially resulting in costly litigation. In addition, this provision would provide an opportunity for insureds who have not paid their premium to game the system by not accepting the letter with the cancellation notice. If insurers, under these circumstances, are unable to cancel policies due to unpaid premium and are required to pay claims for policies on which no premium was paid, then the resulting costs will have to be shared by Connecticut insureds who are doing the right thing and making their premium payments as required under the policy. PCI would submit that it would not be fair to the insureds who are duly making their premium payment to have to pay increased insurance costs due to the actions of those who are trying to game the system.

This requirement is also contrary to the trends across the nation toward modernizing the transmission of insurance notices and documents through electronic delivery. In a number of states, laws have been passed allowing for the electronic delivery of cancellation and other notices so as to improve efficiency, reduce costs and recognize that electronic delivery of mail and documents is a common mode of transmission. This bill would take Connecticut a major step backward in this regard and would also add significant costs to auto insurance due to the increased mailing and staffing costs necessary to effectuate this burdensome and unnecessary requirement.

Section 4: 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. 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 in excess of the minimum financial responsibility requirements, 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.

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.