

Joint Statement of
The American Insurance Association,
The Insurance Association of Connecticut,
The National Association of Mutual Insurance Companies, and
Property Casualty Insurers Association of America

Insurance & Real Estate Committee

March 8, 2016

HB 5522, An Act Concerning Homeowners Insurance Policies and the Definition of the Peril of Collapse

Please accept this as the joint testimony of the American Insurance Association, the Insurance Association of Connecticut, the National Association of Mutual Insurance Companies and Property Casualty Insurers Association of America (collectively, the “Insurance Trade Associations”).

The Insurance Trade Associations oppose HB 5522, An Act Concerning Homeowners Insurance Policies and the Definition of the Peril of Collapse.

As a backdrop to this opposition, the Insurance Trade Associations ask the Committee to consider the purpose of homeowners’ insurance policies, which is to provide coverage for certain fortuitous losses consistent with the terms and conditions

of the policy. Examples of such losses include property damage caused by wind or fire as outlined in the contract. In considering the scope of homeowners' policies, it may be helpful to consider what homeowners' policies are not generally intended to do, including: (1) provide warranties; (2) fund maintenance; or (3) cover latent defects or commercial liabilities.

First, homeowners' policies are not warranty contracts, meaning that they are not guarantees or assurances that all risks will be covered. As written, it seems that HB 5522 may effectively turn homeowners' insurance policies into home warranty contracts with respect to "any impairment to a covered dwelling's structural integrity" (as "collapse" is partially defined under the bill). This is a very ambiguous standard that may be interpreted to cover a large number of circumstances.

Second, the idea of a fortuitous element to homeowners' coverage is to focus on losses that are unexpected and not on those that take place over an extended period of time. As a general matter, the homeowner is responsible for the maintenance of the property.

Third, homeowners' policies were never intended to cover losses caused as a result of gradual deterioration or latent defects. These policies generally do not cover losses resulting from defects in construction, engineering or materials. Importantly, HB

5522 may also create a moral hazard by removing incentives for the concrete and home construction contractors to avoid using defective materials or techniques.

Based on the factors discussed above, if HB 5522 were to become law, homeowners' insurers would be operating in an uncertain regulatory and business environment in which there may be significant ambiguity relative to what they are underwriting.

The full possible market impact of HB 5522 is difficult to quantify and articulate given what appears to be the sweeping scope of coverage mandated under the bill. Individual insurers may be confronted with a hazard not previously contemplated, so they may not have historic experience upon which to set appropriate premiums.

Aside from the major difficulties in underwriting or rating the policies with the expansive maintenance type coverage required by this bill, such a major expansion of coverage would not be without cost. In fact, one reason why homeowners' policies include certain exclusions is in order to keep the policies affordable. Adding coverage for things like the broad array of structural integrity impairments and costs associated with mitigation of such impairments, as would be required by HB 5522, may have an unintended consequence of impacting affordability.

HB 5522 would also negatively set Connecticut apart from the rest of the country in terms of homeowners' insurance. This could have a tremendous chilling effect on the Connecticut homeowners' insurance marketplace.

For these reasons, the Insurance Trade Associations strongly oppose HB 5522 and ask this committee to reject it. Thank you for the opportunity to comment on this legislation.