



National Association of
Professional Surplus Lines
Offices, Ltd.

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FTR

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Raised Bill No. 5516 –AN ACT CONCERNING THE PROVISIONS OF THE STANDARD FIRE INSURANCE POLICY AND COMMERCIAL PROPERTY INSURANCE POLICIES ISSUED BY NONADMITTED INSURERS.

Dear Chairman Megna:

On behalf of the National Association of Professional Surplus Lines Offices (NAPSLO)¹, we appreciate the opportunity to provide comments to the Connecticut General Assembly regarding Raised Bill No. 5516.

Raised Bill 5516 will modify Section 38a-308 by significantly restricting surplus lines insurance policies use of coinsurance clauses for coverage of commercial real property in Connecticut. The bill mandates the use of "fair market value" in the use of a coinsurance clause in the event that a commercial fire policy defines "depreciation" in any way other than a, "a decrease in value of real property over a period of time due to wear and tear." This limitation will unduly interfere with the surplus lines insurer's freedom of rate and form that is critical to its customization, innovation and ability to meet evolving coverage needs of the Connecticut insurance consumer.

Traditionally, surplus lines insurers have been able to cover hard-to-place risks because they have been able to react to market changes and accommodate the unique needs of insureds that have been unable to obtain coverage from admitted carriers. This results in cost-effective solutions for consumers that are not "one size fits all," but are instead skillfully-tailored to meet specific needs for non-standard risks. Standard rating analysis does not apply to these risks because the risk profiles, catastrophe exposure, coverage limits and/or values may differ substantially from those the admitted market can rate and place. Because of these differences, it is important to evaluate such attributes when analyzing the related pricing of the coverage. Therefore, requiring specific provisions in the policy, such as a specific definition for depreciation, is contrary to the individual underwriting and analysis conducted risk by risk in the nonadmitted market and likely to reduce the options available to the insured.

¹ NAPSLO is the national professional trade association representing the surplus lines industry and the wholesale insurance distribution system. NAPSLO's membership consists of approximately 400 brokerage member firms, 100 company member firms and 200 associate member firms, all of whom operate over 1,500 offices representing approximately 15,000 to 20,000 individual brokers, insurance company professionals, underwriters and other insurance professionals in the 50 states and the District of Columbia. NAPSLO is unique in that both surplus lines brokers and surplus lines companies are full members of the association; thus NAPSLO represents and speaks for the surplus lines wholesale marketplace.

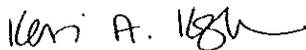
We are not aware of any other statutory provision, in any other state, that would impose similar depreciation restrictions for surplus lines insurers. The new provision of Section 38a-308 would effectively mandate contract terms between an insurer and its customers, who in this case are usually sophisticated buyers attempting to insure their own complex risks.

Regarded as the "safety valve" of the insurance industry, surplus lines insurers fill the need for coverage declined by the standard underwriting and pricing processes of admitted insurance carriers, but the surplus lines industry can only complete that task when our companies are free to negotiate contract terms with their customers.

Raised Bill 5516 will significantly impede the nonadmitted insurance market from functioning as intended in Connecticut and for that reason we would respectfully ask that you reject this measure.

We stand ready to cooperate with the Connecticut Insurance Department, the legislature and you to resolve this issue moving forward. Please contact us or our local counsel, William Malitsky at 860.944.8297.

Sincerely,



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