

PA 11-253

HB6364

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**H – 1115**

**CONNECTICUT  
GENERAL ASSEMBLY  
HOUSE**

**PROCEEDINGS  
2011**

**VOL.54  
PART 24  
7913 – 8263**

tmj/jr/rgd/gbr  
HOUSE OF REPRESENTATIVES

150  
June 6, 2011

THE CLERK:

House Bill 6262 as amended by House "A"

Total Number Voting 145

Necessary for Passage 73

Those Voting Yea 145

Those Voting Nay 0

Absent not Voting 6

DEPUTY SPEAKER RYAN:

The bill as amended is passed.

Will the Clerk please call Calendar Number 156.

THE CLERK:

On page 5, Calendar 156, House Bill Number 6364,

AN ACT CONCERNING THE SUNSET DATE FOR PERSONAL

INSURANCE RISK RATE FILING AND LIMITING RATE

INCREASES IN CERTAIN CIRCUMSTANCES, favorable report

of the Committee on Public Safety.

DEPUTY SPEAKER RYAN:

The Esteemed Chair of the Insurance and Real  
Estate Committee, Representative Megna; of the 97th.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, I move the Joint Committee's  
favorable report, passage of the bill.

DEPUTY SPEAKER RYAN:

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The question is acceptance of the Joint  
Committee's favorable report and passage of the bill.

Will you remark?

REP. MEGNA (97th):

Yes, Mr. Speaker.

Mr. Speaker, this bill extends the sunset date  
for our flex rating law from July 1, 2011 to July 1,  
2013.

The flex rating law is just a law that allows  
personal lines of insurance companies to increase or  
decrease their rates across the state up to six  
percent without prior approval, and I just want to  
point out they are subject to approval after the fact  
by the Department.

Mr. Speaker, the Clerk is in possession of LCO  
6586. I ask that it be called and I be permitted to  
summarize.

DEPUTY SPEAKER RYAN:

Will the Clerk please call LCO 6586, which is  
designated House Amendment Schedule "A".

THE CLERK:

LCO No. 6586, House "A", offered by  
Representative Megna and Senator Crisco.

DEPUTY SPEAKER RYAN:

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Representative seeks leave of the chamber to summarize the amendment.

Is there objection to summarization? Is there objection to summarization?

Hearing none, Representative Megna, you may proceed with summarization.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, this amendment strikes Section 2 of the -- the bill. Section 2 is a controversial section that would have limited the Department of Insurance's ability to approve certain rate increases, and therefore it was struck by the bill, and I move adoption of that amendment, Mr. Speaker.

DEPUTY SPEAKER RYAN:

The question before the chamber is adoption of House Amendment Schedule "A".

Will you remark on the amendment? Will you remark?

Representative Coutu of the 47th.

REP. COUTU (47th):

Thank you, Mr. Speaker.

Mr. Speaker, this removal of this section makes

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this bill very positive for the insurance industry.

I thank the Chairman for making this effort and bringing this amendment forward.

Thank you.

DEPUTY SPEAKER RYAN:

Thank you, sir.

Will you remark further on the amendment before us? Will you remark further?

If not, I will try your minds. All those in favor, signify by saying aye.

REPRESENTATIVES:

Aye.

DEPUTY SPEAKER RYAN:

All those opposed, nay.

The ayes have it. The amendment is adopted.

Will you remark further on the bill as amended?

Will you remark further on the bill as amended?

If not, will staff and -- Representative Megna.

REP. MEGNA (97th):

Thank you -- thank you, Mr. Speaker

Mr. Speaker, the Clerk is in possession of LCO 8365. I ask that it be called and I be permitted to summarize.

DEPUTY SPEAKER RYAN:

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Will the Clerk please call LCO 8365, which will be designated House Amendment Schedule "B".

THE CLERK:

LCO Number 8365 House be offered by Representative Megna and Senator Crisco.

DEPUTY SPEAKER RYAN:

The question before the chamber is adoption of House Amendment Schedule "B".

Will you remark on the amendment?

Representative Megna.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, this is essentially a technical amendment which will permit the Department of Insurance under specific circumstances, to allow title insurers access to an alternative reinsurance market for certain policies.

And with that, I move adoption.

DEPUTY SPEAKER RYAN:

The question before the chamber is adoption of House Amendment Schedule "B".

Will you remark on the amendment?

Representative Coutu of the 47th.

REP. COUTU (47th):

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Mr. Speaker, this improves the legislation, and I strongly support the amendment and urge my colleagues to do the same.

Thank you, Mr. Speaker.

DEPUTY SPEAKER RYAN:

Thank you, Representative.

Will you remark further on the amendment before us? Will you remark further on the amendment before us?

If not, I will try your minds. All those in favor, please signify by saying aye.

REPRESENTATIVES:

Aye.

DEPUTY SPEAKER RYAN:

Opposed Nay?

The ayes have it. The amendment is adopted.

Will you remark further on the bill as amended? Will you remark further on the bill as amended. If not will staff and guests please come to the well the House. Will the members please take your seats. The machine will be open.

THE CLERK:

The House of Representatives is voting by roll call. Members to the chamber. The House is voting



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by roll call. Members to the chamber.

DEPUTY SPEAKER RYAN:

Have all members voted?

Have all members voted?

Will the members please check the board to determine if your vote is properly cast. If all members have voted, the machine will be locked and the Clerk will take a tally.

Will the Clerk please announce the tally.

THE CLERK:

House Bill 6364 as amended by House "A" and "B":

Total Number Voting 146

Necessary for passage 74

Those voting Yea 146

Those voting Nay 0

Absent and not voting 5

DEPUTY SPEAKER RYAN:

The bill as amended is passed.

Any announcement or points of personal privilege?

Hearing none, will the Clerk please call Calendar Number 58.

THE CLERK:

Calendar 58, House Bill Number 5489, AN ACT

**JOINT  
STANDING  
COMMITTEE  
HEARINGS**

**INSURANCE AND  
REAL ESTATE  
PART 8  
2295 – 2657**

**2011**

REP. MEGNA: Thank you. Any other questions?  
Thank you very much.

BETH COOK: Thank you.

REP. MEGNA: I don't have the department on any  
other bills here, do I? Okay. You can go.

We're going to move back to the public  
portion.

We're going to move down to House Bill 6364.

First speaker, Bob Kehmna.

ROBERT KEHMNA: Thank you, Mr. Chairman, Senator  
Crisco, members of the committee.

I'm Bob Kehmna, from The Insurance Association  
of Connecticut. I'm here today to speak in  
opposition -- or in support, rather, of  
Section 1 of House Bill 6364.

In 2006, the General Assembly approved  
Legislation creating what's known as "flex  
rating" for personalized insurance. As long  
as the overall filed rate is not in excess of  
6 percent, you don't have to go through prior  
approval.

This bill, in Section 1, would extend the  
sunset date for two years, which would be a  
positive development for the competitive  
market place we have here in the state.  
Flex-rating enables insurers to react  
effectively and quickly to a changing  
marketplace, further increasing competition in  
that marketplace.

In fact, since the passage of flex-rating in  
2006, for example, auto insurance rates have

been flat. The number of insurance companies competing in Connecticut has increased. The assigned risk pool has been reduced to record low numbers. So we would urge passage of Section 1 of the bill.

As to Section 2, we strongly oppose it. This would put -- put arbitrary and counterproductive caps on permissible rate increases when an insurer discontinues accepting applications for a line or subline of insurance. If an insurer does that, they do so for good reason. After all, these businesses are in business to do business. However, this would potentially prevent that company from getting an actuarially sound rate increase for the existing ongoing book of business that they continue to service. This would create inadequate rates.

It would push insurers to nonrenew policies where that would not be necessary. It would threaten the financial stability of that insurer, and take away the Insurance Commissioner's own authority to regulate rates. So we would urge rejection of Section 2 of this bill. Thank you.

REP. MEGNA: Thank you.

Are there any questions?

Representative Schofield.

REP. SCHOFIELD: Thank you, Mr. Chair. I just want to understand Section 2 a little bit better.

When a line is discontinued -- and so let's take an example, like auto insurance, right, or if -- I don't know if that's a good example. When -- when you discontinue that

particular insurance, people, because of the guaranteed renewal -- renewable clause, can keep getting that particular insurance for years to come; am I correct, or is --

ROBERT KEHMNA: No.

REP. SCHOFIELD: No.

ROBERT KEHMNA: No. What this says is, when you discontinue accepting applications --

REP. SCHOFIELD: Right.

ROBERT KEHMNA: -- so you no -- you're no longer writing --

REP. SCHOFIELD: Right.

ROBERT KEHMNA: -- new business --

REP. SCHOFIELD: Exactly. But --

ROBERT KEHMNA: -- for a particular line.

REP. SCHOFIELD: -- the old business (inaudible) --

ROBERT KEHMNA: -- but you decide as a company to maintain your existing book, continue to service it -- now, insurers may jump out of that book -- but you are not nonrenewing that book as a means of getting out of the business. You're continuing that business, you're not accepting new business.

REP. SCHOFIELD: So that's my question. Is -- so for people who are just looking for renewals --

ROBERT KEHMNA: Uh-huh.

REP. SCHOFIELD: -- under current law, are you required to keep renewing them?

ROBERT KEHMNA: No.

REP. SCHOFIELD: Or do you have the option to truly shut down the business entirely, and tell those people, sorry, you can't renew.

ROBERT KEHMNA: A notice has to be given to the state. There's a process that you go through. But this bill addressed a situation, as I understand it, where you're not accepting new business --

REP. SCHOFIELD: Right. I got that.

ROBERT KEHMNA: -- but you're still making filings. If you're still making filings, that means you have business on the books.

REP. SCHOFIELD: Right.

ROBERT KEHMNA: So you're maintaining the -- the book of business that existed prior to the business decision you made not to take new filings, that -- that existing business, like any other business, has -- has to have sufficient rate to cover the risk presented. This bill, by putting an arbitrary cap of 6 percent, regardless of the facts of the situation, will create a situation, whereby, definition, at some point, you could have inadequate rates.

You're taking away the commissioner's authority to, in effect, regulate. If there is the potential for a financial instability resulting from this artificial cap, the commissioner has no authority, given this -- the absolutes of this bill, to recognize that

fact. This -- and it will force some companies, potentially -- can't speak for any company -- but if you're not getting adequate rate, you've decided you want to keep your existing book of business because you -- but you don't want to expose yourself to more risk, so you're not taking new applications, if you can't get adequate rate for that existing book of business, what's your -- what's your reaction going to be as a business?

REP. SCHOFIELD: And that's what my --

ROBERT KEHMNA: You're going to nonrenew, and you're going to get out.

REP. SCHOFIELD: Okay.

ROBERT KEHMNA: So then -- then there's going to be a dislocation in the marketplace.

REP. SCHOFIELD: That's just where I was going.

ROBERT KEHMNA: It's a -- my -- a long-winded way of answering your question. It's going to be a -- a dislocation in the marketplace that is totally unnecessary. This company was not looking to nonrenew, but through this artificial cap, you may force it to nonrenew.

REP. SCHOFIELD: And so under existing law, you have the ability to just say to everybody, we're just shutting down, but you don't do that because you can at least keep raising rates. Under the future, you're saying, if you can't raise rates, they're just going to take all those customers and say, you're out of here, we're not going to serve you anymore.

ROBERT KEHMNA: If it's going to imperil the

financial stability of the company, certainly.

REP. SCHOFIELD: Okay.

ROBERT KEHMNA: Now, if that company only needs --

REP. SCHOFIELD: So to guaranteed renewal -- guaranteed renewable language, then, that exists, would not force -- if this passed, it wouldn't force you to keep serving these people with no rate increase.

ROBERT KEHMNA: We're talking --

REP. SCHOFIELD: You would have the option to just say --

ROBERT KEHMNA: Yes.

REP. SCHOFIELD: -- you're -- you're out of here.

ROBERT KEHMNA: Yeah.

REP. SCHOFIELD: Okay. I just want to make sure That's clear. Not that that's a particularly great option, necessarily, but it --

REP. MEGNA: If I could just build on that discussion that the two of you just had, and explain why that section is in there.

I think there's -- according to the information provided to me by the department, there's approximately 70 or so homeowner carriers that underwrite in the state. And out of -- one of them had decided to not take on any new business. There's other ones that have told their agents that they're not taking on any business. And, I believe, they -- they didn't change their rates at all.



Of the 52, or so, companies that asked for a rate change, several of them were -- were rate decreases, several of them were new companies entering into the marketplace, maybe four or five. And of the ones that did ask for an increase, the rate, the -- I think the average overall was like 8 percent. And I don't know if that includes the 20, or so, that never even applied for any kind of rate filing. If it does, that would take that 8 percent lower.

This one company informs the Department of Insurance that they're not taking on any new business, and they decided to enter into -- use another legal entity to sell insurance. They had loss ratios of 30 percent, '09, and '08, or somewhere around there, and then they requested a 20 percent rate increase across the board, which the department okayed -- and keeping in mind that they're not taking on any new business.

So when we saw that, and we look at the statute that says rates should not be excessive, inadequate, or discriminatory, it kind of jumps out at us, like, this may be excessive and may be discriminatory because they're cranking up a 20 percent rate on individuals that are part of their book of business, and they're deciding not to offer insurance to anybody else, or not take on any new business under that entity.

I think that's why that section is in there. Because we saw that 20 percent approval by the department as excessive and possibly discriminatory.

ROBERT KEHMNA: Well, obviously, the department didn't think so or they wouldn't --

REP. MEGNA: Obviously. Obviously.

ROBERT KEHMNA: And I -- if we're talking about the same company, that particular book of business hadn't had an increase in several years. And the nature of that -- of that increase related to an ongoing discussion that that particular company had with the department relative to reinsurance costs and how those get allocated relative to -- to premiums.

That was an ongoing issue for a company that hadn't had a rate change in several years. And that rate finally was specifically approved, under the laws of Connecticut, which prohibit, as you say, excessive and nondiscriminatory --

REP. MEGNA: Excessive and nondiscriminatory.

ROBERT KEHMNA: -- so I would think, therefore, it was found not to be excessive or non -- or discriminatory.

REP. MEGNA: But, Bob, a 30 percent rate loss ratio is fairly good. Isn't it?

ROBERT KEHMNA: I don't know what the loss ratio is. I -- I'd be glad to look into that.

REP. MEGNA: Loss ratio is somewhere around 30 percent. I think an industry average is what 40 to 60 on PNC?

ROBERT KEHMNA: I -- I don't have a number for you, Mr. Chairman.

REP. MEGNA: Which is considered good business. But, anyway, thank you. That's why that section is in there.

Are there any other questions? No?

Paul Tetrault.

PAUL TETRAULT: Good afternoon, Senator Crisco;  
Representative Megna.

HB6364

My name is Paul Tetrault. I'm with the National Association of Mutual Insurance Companies, or NAMIC. NAMIC is the largest and most diverse national property casualty trade association in the United States, with 1400 members writing approximately 50 percent of the personal lines market in the country, so we have a significant interest in this bill.

I'd like to associate myself with the comments from the Insurance Association of Connecticut, in support of the flex-rating extension. NAMIC is supportive of flex-rating legislation across the country. We supported the bill in 2006 here in Connecticut when it was originally passed, and we supported its previous extension as well.

In fact, we would urge the committee to consider extending the -- the sunset provision further, or eliminating it altogether. The way flex-rating statutes work is -- effectively, is to give companies confidence that they can adjust rates appropriately.

When -- when market conditions change, that allows them to -- to compete better. And so it's better to have no sunset so that they have confidence that that flex-rating situation will -- will continue.

But -- and also in agreement with the Insurance Association of Connecticut, we'd expressed, you know, strong opposition to the

-- to the limitation on companies filing for rate increases above 6 percent, when they're now writing a -- not taking new business in a certain line. It just seems to be contrary to many different scenarios that could come up, where an insurance company would -- would want to discontinue writing new business and would -- would also need a rate increase at the same time.

You know, Bob -- Bob pretty much covered the -- the situation in which, you know, the company, you know, would have to either nonrenew the business completely, or the -- the other alternative would be to continue writing the business at a -- at a loss, and -- and potentially, financially impairing the company. So either of those would have bad outcomes for the company, and for the marketplace, and -- and for consumers, ultimately.

And I just point out that, you know, reviewing statutes nationwide, we -- we haven't come up with any that are similar in -- in the respect of -- we're, you know, setting an arbitrary number that actually, you know, limits rate increases in the statute. You know, there was -- there's obviously prior approval -- you know, situations across the country and here in Connecticut, as Bob mentioned, the department reviews all filings that -- that aren't - that aren't under the flex-rating, which is what this would be.

So thank you for your time, and I'd be happy to any questions.

REP. MEGNA: Thank you. Are there any questions?  
Thank you very much.

PAUL TETRAULT: Thank you.

REP. MEGNA: Kristina Baldwin.

KRISTINA BALDWIN: Good afternoon, Senator Crisco, Representative Megna, and members of the committee.

HB 6364

My name is Kristina Baldwin. I'm here on behalf of the Property Casualty Insurers Association of America. PCI represents over a thousand insurance companies across the country. And in Connecticut, we write 40 percent -- 46 percent of the personal lines insurance in the state.

As the previous speakers noted, we strongly support Section 1 of this bill, which would extend for two years Connecticut's current flex-rating provision. Flex-rating has been a sound step toward regulatory modernization in Connecticut. And it's worked to increase competition, contain premium growth, and benefit consumers.

Looking at the experience in auto insurance, for example, since the flex-rating law has been in effect, auto insurance premiums have remained flat, even though loss costs have increased by 10 -- 10.8 percent.

This is true because, under flex-rating, insurers are more inclined to contain premiums because they know that they will be able to increase them within the flex band if they need to in the future. Flex-rating also facilitates competition, and that helps to contain premiums as well.

We also, as noted by the previous speakers,

have strong concerns and strongly oppose Section 2 of the bill. Imposing a rate cap of 6 percent would raise serious concerns because there could be solvency issues. And insurance rates really need to reflect the -- the risk. If you place a rate cap -- an arbitrary rate cap, or otherwise engage in rate suppression, chronic market problems can ensue.

In addition, insurers that are looking to enter the Connecticut market would be disinclined to do so, if they know that in -- in the event -- in the future, they need to discontinue writing new policies that they're going to be subject to this arbitrary cap. So if this would discourage new entrants into the market, it would decrease choices -- insurance choices, for Connecticut consumers.

Thank you.

REP. MEGNA: Thank you.

Just to -- when it comes to flex-rating, say there's -- flex-rating of 6 percent. You could actually have territories where the -- the rate would increase 20 percent, but as long as the average overall for the state is not greater than 6 percent -- is that how flex-rating works?

KRISTINA BALDWIN: I believe that is how it works in Connecticut. However, it's my understanding that it's highly unusual that you would end up with a 20 percent increase, for example. When you have a limited flex band, as Connecticut does, that's 6 percent, it's very, very unusual that you would have something that far out of the band. Most of

--

REP. MEGNA: Is it possible?

KRISTINA BALDWIN: -- most --

REP. MEGNA: Is it possible? I don't know.

KRISTINA BALDWIN: Potentially, but highly, highly unlikely. And if there was such a -- such a circumstance, it would be because the risk in that area -- or -- for that -- that risk necessitated such an increase -- but highly, highly unusual.

REP. MEGNA: But the -- on the flex-rating, though, it's still reviewed, but it's reviewed after the fact. Is that how it works?

KRISTINA BALDWIN: That's my understanding, yes.

REP. MEGNA: Yeah. Thank you.

Are there any questions? No.

Thank you very much.

We're going to move on to 6365.

First speaker, Bob Labanara?

ROBERT LABANARA: Close enough.

REP. MEGNA: Bob -- should know your last name.

ROBERT LABANARA: Good afternoon, Mr. Chairman,  
Senator Crisco, members of the Insurance and  
Real Estate Committee.

My name is Bob Labanara, with the Connecticut  
Conference of Municipalities, CCM, your  
statewide association of cities and towns. I

HB 6365

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**Statement**  
**Insurance Association of Connecticut**

Insurance and Real Estate Committee

February 24, 2011

HB 6364, An Act Concerning The Sunset Date For  
Personal Risk Insurance Rate Filings And Rate  
Increases In Certain Circumstances

The Insurance Association of Connecticut (IAC) supports section 1 of HB 6364, which would extend the sunset date for "flex rating" for personal lines insurance. IAC opposes section 2 of the bill, which would have an unfair and detrimental effect on Connecticut's personal lines insurance marketplace.

In 2006 the General Assembly approved legislation that established "flex rating" for personal lines insurance in Connecticut. As long as an insurer's filed overall state-wide rate increase or decrease does not exceed six percent in the aggregate in a year, the insurer does not need prior approval from the Insurance Commissioner to use the rate.

P.A. 09-217 sunset the "flex-rating" provisions on July 1, 2011. Section 1 of HB 6364 would extend the sunset date for two years, to July 1, 2013, which would be a positive development for insurance consumers and the personal lines marketplace in Connecticut.

Competitive rating (filing and using rates without prior approval) allows insurers to adjust the price for their products quickly, up or down, as changing conditions and experiences warrant. This allows insurers to compete vigorously and to price their products aggressively.



“Flex-rating” enables insurers to react effectively and quickly to changing market conditions and experiences, further increasing competition in the marketplace, while continuing the prior approval process for any proposed rates changes which exceeds the cumulative rating band. Experience in other states, and in Connecticut since 2006, has shown that the typical filing under a flex-rating system is well within the rating band limit.

The National Conference of Insurance Legislators’ Flex-Rating Model Act allows rate increases of up to twelve percent without prior approval. In 2008, Kansas adopted legislation using that twelve percent limit. One year after the adoption of a flex-rating law in Louisiana, the state’s insurance commissioner stated that consumers have benefited from the flex rating system because “. . . insurers aren’t as reluctant to reduce rates when business is good . . .,” knowing they can file and use new rates if experience worsens. New York recently readopted a flex-rating system.

Since 2006 overall rate changes in Connecticut for auto insurance have been basically flat. According to press reports, the number of auto insurance companies doing business in this state has grown substantially. The assigned risk pool has continued to shrink to all-time lows (there were only 365 insured in the pool in 2009, versus a high of about 200,000 drivers in 1988).

The competitive marketplace is working in Connecticut to the benefit of consumers, as more insurers are competing for business based on price, product and service. Section 1 of HB 6364, by continuing “flex-rating”, will further encourage that competition while retaining the Insurance Department’s prior approval authority over rate changes exceeding six percent.

IAC urges passage of section 1 of HB 6364.

IAC opposes section 2 of HB 6364, which would put an arbitrary and counterproductive cap on permissible rate increases when an insurer “discontinues accepting applications for a line or subline of personal risk insurance in the state . . .”.

If an insurer decides to stop taking applications for new business in a line of insurance, there are undoubtedly legitimate economic and business reasons for such a decision. After all, companies are in business to do business, so such a decision is not entered into lightly. However, section 2 would potentially prevent that insurer from getting actuarially sound rate increases for the existing, ongoing book of business that it continues to service by capping any future rate increase at a maximum of six percent.

An insurer should be able to file for a rate increase that is actuarially supported, regardless of whether it is accepting new applications. It is still responsible for the claims costs of its existing book of business, and must be allowed to generate the necessary premiums for the risks presented. In fact, section 2 could force “inadequate” rates on insurers, contrary to the duties of the Insurance Commissioner (C.G.S. 38a-686).

If section 2 prevents an insurer from using legitimate, actuarially supported rates, it could force insurers to simply get out of the line of business entirely and non-renew its insureds. Consumers will not benefit from such an unnecessary disruption and contraction of the insurance marketplace.

Section 2 could threaten the financial stability of the insurer, and will limit the authority of the Insurance Commissioner to address an insurer’s fiscal problems. In effect, section 2 would supersede the Commissioner’s responsibility to judge filings according to their merits and the requirements of state law.

IAC urges rejection of section 2 of HB 6364.



Property Casualty Insurers Association of America  
Shaping the Future of American Insurance  
2600 South River Road, Des Plaines, IL 60018-1280

*[Handwritten signature]*

STATEMENT

*Kristina Baldwin*

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 6364 – AN ACT CONCERNING THE SUNSET DATE FOR PERSONAL RISK INSURANCE RATE FILINGS AND LIMITING RATE INCREASES IN CERTAIN CIRCUMSTANCES

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COMMITTEE ON INSURANCE AND REAL ESTATE

February 24, 2011

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H.B. 6364, which would extend the state's flex rating law until July 1, 2013 and would prohibit insurers from seeking rate increases in excess of six percent under certain circumstances. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI members represent 37 percent of the total property/casualty insurance market and 39 percent of the total personal lines insurance business in the nation. PCI member companies provide 46 percent of Connecticut's personal lines insurance coverage.

PCI strongly supports Section one of H.B. 6364 which would extend Connecticut's flex rating law for two years until July 1, 2013. Flex rating has been a sound step toward regulatory modernization in Connecticut which has worked to increase competition, contain premium growth and benefit consumers. Looking at the experience with auto insurance, for example, since the flex rating law has been in effect auto insurance premiums have been flat even though loss costs have been increasing. During this period, even though auto insurance loss costs increased by 10.8%, average premium remained flat. This is true because under flex rating, insurers are more inclined to contain premiums because they know that they will be able to increase them within the flex band if they need to in the future. Flex rating also facilitates competition and competition drives down premiums.

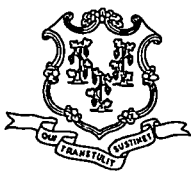
Currently, 38 states and the District of Columbia have flex rating or laws that are less restrictive than flex rating in place. While most of these states have operated this way for many years, 11 states (Alaska, Connecticut, Georgia, Massachusetts, Nebraska, New Mexico, New York, North Dakota, Oklahoma, Rhode Island, and Texas) modernized their personal auto and/or homeowners insurance rate regulatory systems within the last decade. Flex rating was an important step forward for Connecticut on the regulatory modernization front and to allow this law to sunset would be not be positive for Connecticut's insurance market or consumers.

While PCI strongly supports Section one of this legislation, we are strongly opposed to Section two of this legislation. Section two of this bill would prohibit insurers who stop writing new policies in a particular line from filing for a rate increase of more than six percent for such line. Under current

law, rate increases of more than six percent are required to be filed with and reviewed and approved by the Insurance Department. By prohibiting increases beyond six percent, this bill could result in a situation where rates are inadequate which is prohibited under current Connecticut law (C.G.S. 38a-686) and could result in market instability and raise solvency concerns.

Connecticut currently has a competitive personal lines market and if an insurer needs to seek a rate increase beyond six percent, then consumers are free to shop around and seek a more favorably priced policy. If this law were to pass, it would send the wrong message to insurers who may be considering entering the Connecticut market. No insurer will enter a market if they know that their solvency might be jeopardized if they need to stop writing a particular line in the future. Less insurers entering the market means fewer choices for Connecticut consumers when shopping for insurance.

For the foregoing reasons, PCI urges your Committee to remove Section two of this bill and favorably advance HB 6364.



**STATE OF CONNECTICUT**  
*INSURANCE DEPARTMENT*

**Testimony of the Connecticut Insurance Department**

**Before the  
Insurance and Real Estate Committee**

**Thursday February 24th, 2011**

**The Insurance Department submits the following testimony regarding Raised Bill 6364 – An Act Concerning the Sunset Date for Personal Risk Insurance Rate Filings and Limiting Rate Increases in Certain Circumstances. The Department supports the extension of the sunset provisions of the flex rating bill.**

However, the Department has concerns regarding section 2 of this bill that would ultimately leave consumers with fewer insurance choices by potentially forcing some insurers to pull out of the Connecticut market.

This provision will amend Subsection (b) of section 38a-688 to limit insurers' rate increases to 6 percent or less if that insurer had "discontinued" accepting new applications for a line or subline of personal risk insurance in this state. This prohibition does not take into account any actuarially justified reasons for the need for that increase, even if the company provides that rationale and justification for new rate. Instead, it could force insurers to just decide to discontinue writing business in the state and not renew their entire book of business.

The Department believes that this limitation may ultimately affect the financial soundness of the company and its ability to pay the claims of its Connecticut clients in the event of a loss. Policy holders pay for and clearly expect to be indemnified when there is loss and this portion of a bill seriously undermines that expectation.

Lastly, there are many existing programs for companies in the State of Connecticut where the company is no longer writing new business (legacy books) but the company is writing new business through new programs it has filed.

In summary, the Department supports the extension of the flex rating laws but is not in favor of section 2 of Raised Bill 6364 as it ignores the important actuarial, financial and overall market soundness of the personal risk line of business and could leave consumers with fewer insurers from which to choose.

# NAMIC<sup>®</sup>

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## Statement of the National Association of Mutual Insurance Companies to the Insurance and Real Estate Committee

### **HB-6364, "An Act Concerning the Sunset Date for Personal Risk Insurance Rate Filings and Limiting Rate Increases in Certain Circumstances"**

**Paul Tetrault, Northeast State Affairs Manager**

**February 24, 2011**

I am pleased to provide comments on behalf of the National Association of Mutual Insurance Companies (NAMIC) regarding HB-6364, "An Act Concerning the Sunset Date for Personal Risk Insurance Rate Filings and Limiting Rate Increases in Certain Circumstances." NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include single-state, regional, and national carriers accounting for 50 percent of the nation's automobile/ homeowners market.

NAMIC is supportive of the provision in HB-6364 to extend the sunset date for flex-rating filings and would urge the Committee to consider removing the sunset provision altogether. However, NAMIC has serious concerns regarding the provision in the bill that would limit insurers' ability to file for rate increases for lines where they are not writing new business.

#### **Extension of the Sunset Provision**

NAMIC strongly supports the enactment of rate modernization statutes and regulatory changes that allow insurers operating in a competitive market to adjust rates in response to changing market conditions. NAMIC supported the adoption of Connecticut's personal lines flex-rating statute in 2006 as well as the previous extension of the statute's sunset provision. Consistent with that position, we support the provision of HB-6364 to extend the sunset again and further urge that it be extended beyond two years or eliminated altogether.

As a general matter, flex-rating laws promote competition among insurers because they provide confidence that an insurer can lower rates to attract more business but increase rates if necessary due to changing results and market conditions. They also allow for concentration of limited regulatory resources on important matters other than review of rate changes within the flex band range.

NAMIC supports rate modernization laws as a necessary element in creating a reformed system of state insurance regulation. Since passage of Connecticut's flex-rating statute in 2006, rate modernization laws have been enacted in Kansas, Georgia and New York, marking significant progress on this critical issue.

Because flex-rating statutes promote competition by providing insurers with confidence regarding their ability to adjust rates in the future, a flex-rating statute will be more effective in providing the benefits of competition if its provisions provide insurers with a sense of stability regarding its continuation. For this reason, NAMIC would urge the Committee to consider extending the sunset much further or eliminating it altogether.

#### **Limiting Rate Increases When Insurers Are Not Writing New Business**

NAMIC has serious concerns regarding the provision of HB-6364 that would prohibit an insurer from filing a rate increase greater than six percent after the insurer has discontinued "accepting applications for a line or subline of personal risk insurance." NAMIC believes this provision improperly interferes with insurers' ability to manage their business and would be detrimental to insurers, the marketplace, and consumers.

As an initial matter, it is important to note that while this provision has been included in a bill that applies to the flex-rating statute, this provision runs contrary to the nature of flex-rating and would apply to all filings, including prior approval filings which are reviewed by the Insurance Department. In light of such review, a statutory limitation on rate increases is not warranted. It is also significant to note that we are not aware of any other state having a similar provision in statute establishing an arbitrary numerical limitation on rate increases.

Having a statutory limitation on rate increases could lead to significant problems. An insurer may decide stop writing new business in a specific line for various legitimate reasons, and there is no reason to assume that an insurer that has ceased writing new business in a line does not need to increase rates in that line. To the contrary, there may be sound business reasons why an insurer that has stopped accepting new business in a given line needs a rate increase larger than six percent in that line.

An insurer may decide to stop accepting new business in a given line precisely because it has found it is losing money in that line, and it may be the case that such an insurer needs to increase rates more than six percent in order to achieve rate adequacy. An insurer that has determined that it needs a rate increase greater than six percent but cannot file for such a rate increase because of a statutory prohibition would face a difficult choice. The insurer could be prompted to nonrenew business in order to stop losing money and exit the line altogether. Or the insurer could continue to write the business at an inadequate rate, which ultimately could threaten the insurer's solvency and force it out of business. In either case, the result would be eliminating a choice in the marketplace and therefore reducing competition. This would be detrimental consumers as well as insurers.

Both ratemaking and decisions regarding whether to continue to write new business in a given line are fundamental to the management of an insurance company. In NAMIC's view it is inappropriate to have a statutory provision setting an arbitrary numerical limit on an insurer's ability to file for a warranted rate.

Thank you for the opportunity to present NAMIC's views on these important subjects. I would be happy to answer any questions.

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**CONNECTICUT  
GENERAL ASSEMBLY  
SENATE**

**PROCEEDINGS  
2011**

**VOL. 54  
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6915-7208**



cd/lg/sg/mhr/gbr  
SENATE

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June 8, 2011

THE CHAIR:

So ordered.

SENATOR LOONEY:

Thank you, Madam President.

Calendar page 22, Calendar 651, House Bill 6540;  
Madam President, move to place the item on the Consent  
Calendar.

THE CHAIR:

So ordered.

SENATOR LOONEY:

Thank you, Madam President.

Calendar page 23, Calendar 657, House Bill 6262;  
Madam President, move to place the item on the Consent  
Calendar.

THE CHAIR:

So ordered.

SENATOR LOONEY:

Thank you, Madam President.

Madam President, Calendar page 23, Calendar 658,  
House Bill 6364; move to place this item on the  
Consent Calendar.

THE CHAIR:

So ordered.

Immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber. Immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

Madam President, the items placed on the first Consent Calendar begin on Calendar page 10, Calendar Number 478, House Bill 6488; Calendar 480, House Bill 5256.

Calendar page 11, Calendar 513, substitute for House Bill 6557.

Calendar page 12, Calendar Number 535, substitute for House Bill 6226; Calendar 555, House Bill 6259.

Calendar page 13, Calendar 560, substitute for House Bill 5368; Calendar 567, substitute for House Bill 6157.

Calendar page 14, Calendar 574, substitute for House Bill 6410; Calendar 578, House Bill 6156.

Calendar page 15, Calendar 591, House Bill 6263; Calendar 594, substitute for House Bill 5508; Calendar 595, substitute for House Bill 62 -- 5263.

Calendar page 16, Calendar Number 606, substitute for House Bill 6581; Calendar 609, substitute for House Bill 6501.

Calendar page 17, Calendar 610, substitute for House Bill 6224; Calendar 613, substitute for House Bill 6453.

Calendar page 18, Calendar 614, substitute for House Bill 5068; Calendar 628, substitute for House Bill 5008; Calendars 633, House Bill 6489.

Calendar page 19, Calendar 635, substitute for House Bill 6351; Calendar 640, House Bills, 6559.

Calendar page 20, Calendar 642; House Bill 6595.

Calendar page 21, Calendar 645, substitute for House Bill 6267; Calendar 648, substitute for House Bill 5326; Calendar 650, substitute for House Bill 6344.

Calendar page 22, Calendar 651, substitute for House Bill 6540.

Calendar page 23, Calendar Number 655, substitute for House Bill 6497; Calendar 657, substitute for House Bill 6262; Calendar 658, House Bill 6364; Calendar 659, House Bill 5489.

Calendar page 24, Calendar 660, substitute for House Bill 6449.

Calendar page 36 -- correction -- Calendar page 33, Calendar Number 390, substitute for Senate Bill 1181.

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Calendar page 36, Calendar Number 481, House Bill  
5472.

Calendar page 37, Calendar Number 584, substitute  
for House Joint Resolution Number 34; Calendar 585,  
substitute for House Joint Resolution Number 54;  
Calendar 586, House Joint Resolution Number 65,  
Calendar 587, House Joint Resolution Number 66.

Calendar page 38, Calendar 588, House Joint  
Resolution Number 80; Calendar 589, House Joint  
Resolution Number 63; Calendar 590, House Joint  
Resolution Number 35; Calendar 620, substitute for  
House Joint Resolution Number 45.

Calendar page 39, Calendar Number 621, substitute  
for House Joint Resolution Number 47; Calendar 622,  
House Joint Resolution Number 68; Calendar 623,  
substitute for House Joint Resolution Number 69;  
Calendar 624, substitute for House Joint Resolution  
Number 73.

Calendar page 40, Calendar 625, substitute for  
House Joint Resolution Number 81; Calendar 626, House  
Joint Resolution Number 84.

Madam President, I believe that completes the  
items placed on Consent Calendar Number 1.

THE CHAIR:

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Thank you.

SENATOR LOONEY:

Thank you, Madam President.

THE CHAIR:

Mr. Clerk, please call for a roll call vote, and the machine will be open.

THE CLERK:

The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber. The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber.

THE CHAIR:

Senator Gomes?

If all members have voted; all members have voted? The machine shall be locked.

And, Mr. Clerk, will you please call the tally.

THE CLERK:

Motion is on adoption of Consent Calendar  
Number 1.

Total number voting	36
Those voting Yea	36
Those voting Nay	0

Those absent and not voting 0

THE CHAIR:

Consent Calendar passes.

The Senate will stand at ease for a moment.

(Chamber at ease.)

SENATOR LOONEY:

Madam President?

THE CHAIR:

Yes, Senator.

The Senate will come to order.

SENATOR LOONEY:

Yes. Madam President, the Clerk is in possession of Senate Agenda Number 5 for today's session.

THE CHAIR:

Mr. Clerk.

THE CLERK:

Madam President, the Clerk is in possession of Senate Agenda Number 5, dated Wednesday, June 8, 2011.

Copies have been made available.

THE CHAIR:

Senator Looney.