PA13-167

HB5926

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CONNECTICUT GENERAL ASSEMBLY HOUSE

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DEPUTY SPEAKER MILLER:

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 6356, as amended by House "A".

Total number voting	140
Necessary for passage	71
Those voting Yea	128
Those voting Nay	12
Absent and not voting	10

DEPUTY SPEAKER MILLER:

The bill as amended is passed.

Will the Clerk please call Calendar number 35.

THE CLERK:

Calendar number 35 on page number one. Favorable Report of the Joint Standing Committee on Insurance and Real Estate, Substitute House Bill 5926, AN ACT CONCERNING PERSONAL RISK INSURANCE RATE FILINGS.

DEPUTY SPEAKER RYAN:

Representative Megna, the esteemed Chairman of the Insurance and Real Estate Committee.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, I move acceptance of the Joint Committee's Favorable Report and passage of the bill.

DEPUTY SPEAKER RYAN:

The question before the Chamber is on acceptance of the Joint Committee's Favorable Report and passage of the bill.

Representative Megna, you have the floor.

REP. MEGNA (97th):

Thank you again, Mr. Speaker.

Mr. Speaker, this bill extends the sunset date to 2015 from 2013 to allow personal lines insurance companies to increase rates up to six percent or to a negative six percent on their automobile -- personal automobile and personal homeowner business across the state provided the average does not change more than six percent. They would permitted by the department to just put those rates out and then in the event the department had issues with them, they could -- they could alter their rates after that.

This has been a practice that has given a lot of flexibility to the companies throughout the state as well as making the Department of Insurance a little bit more efficient, Mr. Speaker.

Mr. Speaker, the Clerk is in possession of LCO 7050. I'd ask that it be called and I be permitted to summarize.

DEPUTY SPEAKER RYAN:

Will the Clerk please call LCO 7050, which will be designated House Amendment Schedule "A".

THE CLERK:

House Amendment "A", LCO 7050, introduced by Representative Megna.

DEPUTY SPEAKER RYAN:

The Representative asks leave of the Chamber to summarize the amendment. Is there objection to summarization? Is there objection?

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

REP. MEGNA (97th):

Thank you, Mr. Speaker.

This year with the sunset of what we call flex rating coming up in front of the Committee, the Department of Insurance had made a suggestion that we add to the underlying bill and state that rates in any one territory designated by the carriers could not exceed as a condition 15 percent in any one territory. So that would be -- traditionally it was 6 percent on average across the state, and now if this amendment is adopted and the bill becomes law, it would hold them down to 15 percent in any one territory.

One of the issues that the department mentioned is quite often the carriers use this six percent flex rating statute, but often in certain territories the rate increase could be much greater than six percent, however, statewide it does not exceed six percent. So the department came to us with this proposed 15 percent limitation in any one territory. In front of the Committee -- the bill came out of the Committee amended down to ten percent. And this amendment would bring it back up to 15 percent. I know that, I believe my Ranking Member and maybe several others including the industry, had issues with limiting it to ten percent. And with that I would move adoption and ask that the Chamber support the bill. Thank you, Mr. Speaker.

DEPUTY SPEAKER RYAN:

Thank you, Representative.

The question before the Chamber is adoption of House Amendment Schedule "A". Will you remark on the amendment?

Representative Sampson of the 80th.

REP. SAMPSON (80th):

Thank you, Mr. Speaker.

I think the Chairman of the Insurance and Real Estate Committee did a fine job of explaining the amendment. It's very simply increasing the maximum amount of rating change that an insurer can make on a personal risk property and casualty insurance policy to 15 percent. The underlying bill had it at ten percent and there were some concerns on behalf of some members of the Committee including myself as well as members of the industry. And I want to thank the Chairman for making this change and recognizing our concerns as well as the insurance department who also indicated that they would prefer the number to be at 15 percent. So with that, Mr. Speaker, those are the end of my remarks. Thank you.

DEPUTY SPEAKER RYAN:

Thank you, Representative.

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

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

REPRESENTATIVES:

Aye.

DEPUTY SPEAKER RYAN:

All those opposed, Nay.

REPRESENTATIVES:

Nay.

DEPUTY SPEAKER RYAN:

The Ayes have it and 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 of the House, will the members please take your seats, the machine will be open.

THE CLERK:

The House of Representatives is voting by roll. The House of Representatives is voting by roll. Will members please return to the Chamber immediately.

DEPUTY SPEAKER RYAN:

Have all members voted? Have all members voted? Will 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:

Bill Number 5926, as amended by House "A".

Total number voting	139
Necessary for passage	70
Those voting Yea	139
Those voting Nay	0
Absent and not voting	11

DEPUTY SPEAKER RYAN:

The bill as amended is passed.

Are there any announcements or introductions? Are there any announcements or introductions?

The Chamber will stand at ease.

(Chamber at ease.)

Will the Clerk please call Calendar number 455.

THE CLERK:

On page 21, Calendar 455, Favorable Report of the Joint Standing Committee on Judiciary, House Bill 6394, AN ACT CONCERNING THE INDEMNIFICATION OF UNIVERSITY POLICE.

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one generation, the U.S. rates of obesity have approximately tripled among preschoolers and adolescents and actually, quadrupled --

A VOICE:

(Inaudible.)

SENATOR BARTOLOMEO:

Okay.

THE CHAIR:

Senator Looney.

SENATOR LOONEY:

Yes. Madam President, if this item might be passed temporarily where there's an issue for -- for review on this item. So if it might be passed temporarily, we will return to it in a while. And if the Clerk would proceed to the call of the -- the other items listed.

THE CHAIR:

Mr. Clerk.

THE CLERK:

On page 20, Calendar 635, Substitute for House Bill Number 5926, AN ACT CONCERNING PERSONAL RISK INSURANCE RATE FILINGS, Favorable Report of the Committee on Insurance and Real Estate.

THE CHAIR:

Good afternoon, Senator Crisco.

SENATOR CRISCO:

Good afternoon, the lovely Lieutenant Governor. Thank you.

Madam President, I move for acceptance of the Joint Committee's Favorable Report in concurrence with House Amendment "A."

THE CHAIR:

The motion is on acceptance and passage in concurrence.

Will you remark, sir.

SENATOR CRISCO:

Yes, Madam President.

Madam President, several years ago the state of Connecticut took the lead in the modernization of rate filing. In fact, after we adopted what's known as flexible rating, the states of Kansas, Georgia, New York, and others followed our -- our lead.

We did put a -- a time cap on it. And this bill extends the time cap for another two years. The -- what we did is that, simply stated, that an insurance company doesn't have to file with the department if they meet one of two conditions. That if their rate doesn't exceed 6 percent of the average increase in the state or if it doesn't increase the -- the territorial rate of 15 percent.

Now, if a company wants to file for rates higher than those two particular figures, then they could go through the regular rate process. So this gives the insurance companies an opportunity to react to market conditions one way or the other, and again, sets our leadership in the insurance industry.

THE CHAIR:

Thank you.

Will you remark?

Senator Kelly.

SENATOR KELLY:

Thank you, Madam President, and good afternoon.

THE CHAIR:

Good afternoon to you, sir.

SENATOR KELLY:

Thank you, Madam President, and good afternoon.

THE CHAIR:

Good afternoon to you, sir.

SENATOR KELLY:

I have a question, through you, to the proponent of the bill.

THE CHAIR:

Please proceed, sir.

SENATOR KELLY:

Thank you, Madam President.

Could you explain to us exactly what House Amendment "A" does and distinguishes it from the underlying as originally proposed.

Through you, Madam President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam President, through you.

House Amendment "A" does extend the date to 2015, as I stated. But it also changed the percentage. It changed it to more than 10 percent.

THE CHAIR:

Senator Kelly.

SENATOR KELLY:

Thank you, Madam President.

And thank you, Senator Crisco, for the explanation of House Amendment "A." I do stand in support of this bill. I did at the committee level and I remain there today.

Thank you.

THE CHAIR:

Thank you.

Will you remark further? Will you remark further?

Senator Welch.

SENATOR WELCH:

Thank you, Madam President.

I do rise for a question or two to the proponent of the amendment.

THE CHAIR:

Please proceed, sir.

SENATOR WELCH:

Thank you, Madam President.

If -- I would appreciate it if the proponent of the bill could explain to me or define for me what a territory is as this bill perceives a territory.

Through you, Madam President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam President, through you, to the good Senator.

Each insurance company has established territories. A territory could be -- and it varies from company to company. It could be a greater New Haven area. It could be eastern Connecticut, but there are for different insurance companies different territorial areas that they base their premiums on.

THE CHAIR:

Senator Welch.

SENATOR WELCH:

Thank you, Madam President.

So it sounds like an individual territory then is a small area within the state of Connecticut, not outside of the state of Connecticut. It might include one town, more than one town or part of a town. Is that accurate?

Through you, Madam President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam President, through you to the good Senator.

Normally, it's more than one town within the state.

THE CHAIR:

Senator -- Senator Welch.

SENATOR WELCH:

Thank you, Madam President.

How often is it that we've seen in the last year or two a rate increase of more than 15 percent within an individual territory?

Through you, Madam President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam President, I don't have that information. But again, if it is, then they have to go through the -- through you, Madam President, to the good Senator -- through the normal rate procedures.

If they meet these guidelines as we set up in previous legislation, then they could take the rate increase automatically.

THE CHAIR:

Senator Welch.

SENATOR WELCH:

Thank you, Madam President.

Do -- does Senator Crisco have an idea -- and I can appreciate that he might not --

SENATOR CRISCO:

I'll hold this. Is that true?

SENATOR WELCH:

-- how many territories insurance companies would typically break a state up -- or the state of Connecticut up into -- through you, Madam President.

Are we talking about 100 different territories? Are we talking about 50 different territories? Any --

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam -- yes. Thank you, madam.

Madam President, through you to the good Senator.

It varies upon the carrier. You know, logically, looking at the size of Connecticut, I believe you're not going to find 100 territories. They may be based on a roll concept of regions, you know, or whatever other actuarial experience that the specific -- specific insurance company has.

THE CHAIR:

Senator Welch.

SENATOR WELCH:

Thank you, Madam President.

I -- I think we're going to support this bill today. I -- I do have a concern as to a potentially unintended consequence of this bill, and I'll express that in a moment. But I do find some comfort in that there a number of other states that have already gotten down this path, and there seems to be at least some trend on a national level that this is prudent or wise.

But -- but here's the unintended consequence that I'm concerned about and I will be watching for over the next few years. And that is, the individual territories, I presume, are going to be found -- when I say individual territories, I mean, individual territories where large rate increases are a problem, but the aggregate, obviously, of the totality of the rate increase is with a state hasn't or isn't going to exceed the 6 percent. They're probably going to be in -- in certain isolated locations, and they're probably going to be the same locations year after year, and that what we might find is a change in behavior of insurance companies. That to avoid having to do the filing, they are going to not increase their rate increase to the magic number of 15 percent within that particular location and will spread the cost, because they truly are going to have a cost, to all of the other towns, all of the other individual territories.

And so we'll see an increase in rates as a whole in -- in individual territories that might not necessarily warrant that in order to pay for the cost increase within the individual territory and the cut that the insurance company is going to put to that so they don't have to go through the rate increase request.

I don't know if that is going to happen. It might not because they might be able to -- they just might not fear the actual filing that they have to do, but nonetheless, it -- it concerns me. And so I will be watching the behavior and the impact of this bill over the next two years. And if it does seem to be a trend that will be impacting, say, towns in the 31st adversely when they shouldn't be, then I will be definitely picking up the phone and talking to Senator Crisco to see what we can do at that point in time.

Thank you, Madam President.

THE CHAIR:

Thank you.

Will you remark?

Senator Crisco.

SENATOR CRISCO:

Madam President, thank you.

I greatly respect the -- the concern of the Senator. And let me respond that the reason we did not leave this open-ended, because of his concerns, we only do it two years at a time because there could have been a possibility of some gaming by a company -- but we're not sure -- where they would increase the percentage of one area higher than another area, and then the average would be the same so they would get away with -- not get it -- they would be approved with the flex rating.

But, you know, the department has set up strict criteria in rate approval. And so I -- I feel very comfortable that by limiting to two years, by using the parameters of 6 percent for the state and 15 percent for -- for a territory, we -- if we don't eliminate, we minimize the concern of the Senator.

THE CHAIR:

Thank you.

Will you remark further? Will you remark further?

If not, Senator Crisco.

SENATOR CRISCO:

No objection, Madam President, I ask that it be placed on Consent.

THE CHAIR:

Seeing no objection, so ordered, sir.

Mr. Clerk.

THE CLERK:

On page 20, Calendar 639, Substitute for House Bill Number 6379, AN ACT CONCERNING SURPLUS LINES INSURANCE BROKERS, Favorable Report of the Committee on Insurance and Real Estate.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Madam President, I move for acceptance of the Joint Committee's Favorable Report and passage of the bill in concurrence with House Amendment "A."

THE CHAIR:

Motion is on acceptance and passage in concurrence with the House.

Will you remark, sir?

SENATOR CRISCO:

Yes, Madam President.

Madam President, this is legislation dealing with efficiency and awareness. Presently, when they're -- the surplus line brokers and insurers want to question a particular issue or a policy decision, they have to execute affidavits which really impose costs and created, you

Thank you, Madam President.

Madam President, if the Clerk would list the items on the first Consent Calendar and then if we might call for a vote on that Consent Calendar.

THE CHAIR:

Thank you.

Mr. Clerk.

It's not open, I'm not opening it. I'm waiting for you to call the (inaudible).

THE CLERK:

On Page 3, Calendar 209, Senate Bill 1033.

Page 5, Calendar 355, House Bill 6023.

Page 7, Calendar 460, House Bill 6506.

On Page 11, Calendar 505, House Bill 6406.

On Page 18, Calendar 617, House Bill 5441; Calendar 620, House Bill 6683; Calendar 623, House Bill 6365.

And on Page 19, Calendar 624, House Bill 6151.

On Page 20, Calendar 635, House Bill 5926.

Page 23, Calendar 659, House Bill 5358.

On Page 26, Calendar 680, House Bill 5666.

And on Page 29, Calendar 182, Senate Bill 1000.

Page 33, Calendar 384, Senate Bill 1067.

And on Page 36, Calendar 649, House Bill 5113.

THE CHAIR:

Thank you.

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

THE CLERK:

Immediate roll call has been ordered in the Senate. Senators please return to the Chamber. Immediate roll call on Consent Calendar Number 1 has been ordered in the Senate.

THE CHAIR:

If all members have voted, if all members have voted, the machine will be closed.

Mr. Clerk, will you please call a tally.

THE CLERK:

On the first Consent Calendar of the day.

Total Number Voting	35
Necessary for Adoption	18
Those Voting Yea	35
Those Voting Nay	0
Those Absent and Not Voting	1

THE CHAIR:

Consent Calendar passes.

Senator Looney.

SENATOR LOONEY:

Thank you, Madam President.

Madam President, if the Clerk would please call as the next item Calendar Page 10, Calendar 495, Senate Bill 840 from the Finance, Revenue and Bonding Committee.

THE CHAIR:

Good evening, Senator Fonfara.

SENATOR FONFARA:

JOINT STANDING COMMITTEE HEARINGS

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Unfortunately, the way the insurance statutes read, those guidelines that are filed, developed, marketed, become the trade secret of the insurer, are open for public inspection.

We're just seeking that that they are treated like trade secrets and are given the confidentiality that they should be.

I'll take any question.

REP. MEGNA: Thank you, very much.

Are there any questions?

Thank you, very much.

SUSAN D. GIACALONE: Thank you.

REP. MEGNA: Mr. Kehmna, back up for 5926?

ROBERT A. KEHMNA: (Inaudible.)

REP. MEGNA: Your mic.

ROBERT A. KEHMNA: You'd figure after all these years.

Thank you, Mr. Chairman, Senator Crisco, members of the committee. My name is Bob Kehmna, from the IAC. I'm here today to support in part and oppose in part House Bill 5926.

This bill would continue what's known as "flex rating" in this state for personal lines. As long as an insurer has filed over -- overall, statewide rate increase or decrease does not exceed 6 percent in the aggregate in a year, the insurer does not need prior approval from the insurance commissioner in -- in order to use that rate. This bill would extend that provision for another two years; similar legislation has passed in -- in two-year cycles, previous.

This provides a competitive rating for this state, improves competition, allows for speed to market, allows for companies to price aggressively, and consumers benefit at a return from that. Statistics as to recent premium rates in this state since passage of flex rating prove that out.

What we don't agree with is the second part of the bill that would change that 6 percent ceiling, if you will, to 3 percent. That would basically negate the benefit from -- from this bill. It would diminish if -- if not eliminate the increased competitiveness that the market benefits from and by extension consumers benefit from.

The states that have flex rating do not go down to 3 percent; they go as high as 25 percent. We think 6 percent in Connecticut should be maintained.

I'd welcome any questions.

REP. MEGNA: Thank you, Bob.

Bob, the average, I think in 2012 the average increase or change was 3 percent in rates on auto. I -- I forget. I don't, I'm not sure about homeowner. But wouldn't it make sense to keep it in line with the -- the market, I guess, so to speak, of what -- what the average change is --

ROBERT A. KEHMNA: Well --

REP. MEGNA: -- in rates?

ROBERT A. KEHMNA: -- we would strongly suggest that that would not; that's not equal math. That's not a straight-line relationship.

What we have is a situation right now where you can file up to 6 percent in the aggregate. That -- that, if you look at the filings that have occurred using the flex law that exists right now, in the past few years, you'll see that those filings are not bumping us to that 6 percent; only a minority of those filings are getting at or close to that 6 percent. Many are in different places, but that reflects the reality of the need of that insurer for rate.

The advantage of using flex is that you can get that rate right to the market and use it immediately, without any delay requiring approval. And by doing that, you can price aggressively, and your consumer, your constituents benefit from that.

The two -- the 3.1 percent, I think, that you mentioned is the -- and this past year was what was filed by the companies. Of the companies that filed for a rate change, the average change over that time is 3.1 percent. A couple went down; some went up more than that, but the average for all those that filed was 3.1.

It doesn't reflect the fact that a -- a good portion of the marketplace simply doesn't file in a particular year, and that's true from year to year. You have insurers that will live with their rate for the next year. It is sufficient and they deem for competitive purposes there is no need to file another rate.

So you have the 3.1. You have a bunch of companies that are not filing. The net change is somewhere in the high twos, I believe, 2.7. But if you look at the last six years of experience, seven years of experience, since the passage of -- of flex, you'll see that auto insurance has had minimal rate increases over those years. That's in part because of the competitive nature of what you're facilitating here. The facilitating companies being able to price aggressively in an artificial structure of 3 percent to allow for that basically removes the value of -- of this mechanism to incent that competition.

There are nine states, I believe, that have flex-rating laws. The lowest rate of any of those states is 5 percent. The highest rate, as I mentioned earlier, is 25 percent. When COIL, NCOIL, the National Congress of Insurance Legislators constructed a model years ago on flex rating as a means to incent this competitive rating system, they suggested 12 percent. Going down to 3 percent is directly contrary to the concept that we're setting up here and it negates benefit.

REP. MEGNA: And I understand the competitive nature of the market too. I think there, I think there were 83 personal auto carriers and 39 of them went under the -- the flex-rating law, and 17 out of 78, homeowners. And I think the homeowners had an average of, like, 8 percent, and 2.7 on the personal auto.

ROBERT A. KEHMNA: Yes.

REP. MEGNA: But under flex rating, that's a way that could not be rejected by the department; correct? I mean, when you say 6 percent, the average of the -- the average increase of -- of 6 percent or a change of 6 percent, that would mean that the department wouldn't -- have no say that in that, really; we'd just have to let that rate stand.

ROBERT A. KEHMNA: Any -- any --

REP. MEGNA: I -- I noticed that the department, when they do reject something, which I think maybe 1 out of 83 or 2 out of 83 seem like they were altered, which I'm assuming the department said you can't charge that rate, you need to go back to the, back to the table?

ROBERT A. KEHMNA: Well, again, you know, I, using your numbers, I think less than 50 percent of the companies that filed, using auto --

REP. MEGNA: Yeah.

ROBERT A. KEHMNA: -- this past year filed a flex-rating --

REP. MEGNA: A flex, yeah.

ROBERT A. KEHMNA: -- filing.

REP. MEGNA: Yeah.

ROBERT A. KEHMNA: So any of the other filings that were made were subject to the prior, normal prior approval --

REP. MEGNA: Yeah.

ROBERT A. KEHMNA: -- process; excuse me.

I'd also like to point out that Connecticut is in the minority of states in requiring that prior approval. The majority of states, I -- it's about three-fifths; I don't -- I don't recall the exact number. But about three-fifths of the states have some sort of filing use and -- use and file system, which basically says you -- you construct what your rate is and you file it with the department and use it or use it and file it with the department; filing use, use and file. They don't get into prior approval.

So the issue of flex rating only arises in a state that has some --

REP. MEGNA: Right.

ROBERT A. KEHMNA: -- kind of prior-approval process. Of those states, half construct a flex-rating system to supplement that prior-approval system. You're retaining your authority as a state to look at rates that exceed that.

REP. MEGNA: Yes.

ROBERT A. KEHMNA: And the competitive marketplace, itself, we argue ensures that no one is playing games with this flex-rating system, and the facts, themselves, show that because the -- the companies that file these flex-rating numbers, I believe there was -- they were a very small number of that 39 that bumped up to that --

REP. MEGNA: Thirty-nine.

ROBERT A. KEHMNA: -- 6 percent. The competitive nature of the market prevents you from just blindly saying 6 percent --

REP. MEGNA: Yeah, I know.

ROBERT A. KEHMNA: -- (inaudible) percent.

REP. MEGNA: I understand that.

Thank you, very much.

Are there any questions?

Mr. -- Representative Sampson.

REP. SAMPSON: Thank you, Mr. Chair.

Bob, welcome. Good afternoon.

ROBERT A. KEHMNA: Thank you.

REP. SAMPSON: I -- I think I'm going to give you the -- the biggest softball you -- you ever heard, and it's because I really, I don't have anybody else to ask. I'm looking and there are four pieces of testimony that are filed on this particular bill; they all say the same thing, which is that they support extending the flex rating and oppose the decrease in the limit.

And, of course, so I don't -- I don't know if there's a proponent who -- who would want to testify in favor of this idea. And I understand from your position you probably don't want to offer any reason why somebody would want to reduce that, but just playing devil's advocate, can you think of a reason why somebody might want it?

ROBERT A. KEHMNA: No.

REP. SAMPSON: You know, somehow I thought that's what you were going to say.

Thank you.

No more questions, Mr. Chairman.

REP. MEGNA: Thank you.

Any other questions? No.

Thank you.

ROBERT A. KEHMNA: Thank you.

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

January 31, 2013

HB 5926, An Act Concerning Personal Risk Insurance Rate Filings

The Insurance Association of Connecticut (IAC) supports one part of HB 5926, which would extend the sunset date for "flex rating" for personal lines insurance. IAC opposes another part of the bill, which would reduce the maximum aggregate rate filing eligible for "flex rating" from six to three percent.

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 statewide 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.

Legislation in 2009 and 2011 extended the then-existing sunset date for "flex-rating" provisions by two years. Likewise, HB 5926 would extend the sunset date for two years to July 1, 2015, 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 (C.G.S. 38a-688a) 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 rate 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. States have set flex rate limits at different levels. For example, Kansas has a twelve percent limit. Tennessee's limit is fifteen percent, and South Carolina's is set at seven percent. In 2009, New York readopted a flex rating system, several years after its original law had sunset, as it recognized the market and consumer benefits of such a law.

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. For example, since 2006 overall rate changes in Connecticut for auto insurance have been minimal. 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 are currently less than two hundred insureds in the pool, versus a high of about 200,000 drivers in 1988).

By continuing "flex-rating" until July 1, 2015, HB 5926 will further encourage that competition. IAC urges the Insurance Committee to support such a continuation.

However, lines 10 and 17 of HB 5926 would reduce the twelve-month aggregate limit for the applicability of flex-rating provisions from six percent to three percent. Such a change would negate the speed to market effects of the current law, and compromise the resulting competitive benefits for consumers. Insurance Department personnel will be forced to review additional filings, diminishing their administrative efficiency. IAC strongly objects to such a counterproductive and unnecessary change.

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony

Before
The Insurance and Real Estate Committee

January 31, 2013

House Bill 5926 – An Act Concerning Personal Risk Insurance Rate Filings.

Raised Bill No. 5926 extends the sunset date for the "flex rating" law for personal risk insurance from July 1, 2013 to July 1, 2015. Under the flex rating law, insurers may file new personal risk insurance rates with the Insurance Commissioner and begin using them immediately if the insurer's rates increase or decrease on a statewide basis by no more than 6 percent for all products included in the filing. Raised Bill 5926 will lower the 6 percent threshold to 3 percent.

The Connecticut Insurance Department supports the extension of "flex rating law" but is opposed to lowering the statewide percentage to 3 percent. This reduction could potentially reduce the number of product filings and jeopardize Connecticut's very competitive marketplace. The state has more than 100 companies offering personal lines products and the result is significant price competition as carriers vie for market share.

Since implementing the flex rating bill in 2006 average statewide changes for auto and homeowner rates have averaged 2.1 percent and 4.2 percent, respectively.

In lieu of reducing the statewide average to 3 percent, the Department would like to propose an amendment that would apply a territorial "cap" of no more than 15 percent. This would permit companies to continue to file and use their flex rate filing of 6 percent for a statewide average change AND ensure that no individual rate territory impact is greater than 15 percent. The Department has had instances where a company has filed under the 6 percent flex provisions but an individual territory may be assigned a 50 percent rate increase.

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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 5926 – *AN ACT CONCERNING PERSONAL RISK INSURANCE RATE FILINGS*
COMMITTEE ON INSURANCE AND REAL ESTATE

January 31, 2013

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H B. 5926, which would extend the state's flex rating law until July 1, 2015 and would greatly decrease the percentage rate change for which use of the flex rating process would be authorized (known as the "flex band"). 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 member companies provide 46 percent of Connecticut's personal lines insurance coverage

PCI strongly supports the extension of Connecticut's flex rating law. In fact, PCI believes that in order to maximize the market and other benefits associated with flex rating, Connecticut's flex rating law should be made permanent, rather than subjecting it to periodic short term extensions. Flex rating has been a sound step toward regulatory modernization in Connecticut which has worked to increase competition, contain premium growth and benefit consumers 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.

In addition to extending the flex rating law for two years, this bill would reduce the flex band from the current 6% to 3%. If this change were made, it would greatly limit the filings which could be made pursuant to flex rating and would, accordingly, limit the benefits associated with flex rating. In fact, if this reduction were put into place, CT would have by far the lowest flex band of any state in the country. Currently the lowest flex band that any state has enacted is 5% and flex bands go as high as 25%. PCI fears that limiting the flex band to 3% would eviscerate this law to such a degree so as to make the law almost worthless. This would represent a major step backward for CT in the realm of regulatory modernization and would send the wrong message to insurers who might be considering entering the market in CT or expanding in CT.

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. Only 12 states currently have prior approval laws. Even the National Conference of Insurance Legislators (NCOIL) supports a higher flex band; in its model legislation, a 12 percent flex band for personal lines is recommended. Flex rating was an important step forward for Connecticut on the regulatory modernization front and to allow this law to be eviscerated would not be positive for Connecticut's insurance market or consumers

For the foregoing reasons, PCI urges your Committee to amend this bill to maintain the current six percent flex band and favorably advance HB 5926.