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Conn. Coastal Rules Could Make Matters Worse, Warn Insurers

December 7, 2006

Insurers aren't happy with new restrictions on coastal property underwriting being imposed by Connecticut Insurance Commissioner Susan Cogswell in a reversal of her previous policy and they warn that the rules could worsen the problem of insurance availability she is tryng to fix.

Attorney General Richard Blumenthal welcomed Cogswell's new rules as better late than never. Blumenthal said Cogswell never should have permitted storm shutters as a requirement for coastal property insurance in the first place.

Earlier this week, Cogswell decided that home insurers may no longer require permanently installed storm shutters as a condition for writing or renewing policies but must offer consumer choices of loss mitigation controls and deductibles.

Cogswell said her department found "there is an availability problem for homeowners insurance within the admitted markets for homes located within 1000 feet of the coast."

The report found that 59 percent of the market imposes mandatory mitigation requirements of some type for new business while the remaining 36 percent are offering a choice to new customers — mitigation or increased deductibles or no requirements at all.

Only five percent of the market requires mandatory shutters for renewal business. The remaining 91 percent of the market is offering a choice or imposing no requirements at all.

Cogswell insists she reversed the shutter policy and issued other recommednations in hopes of dealing with the availability problem before it gets worse.

But insurers say the market is working and that Cogswell's restrictions

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on what mitigation steps they can require of coastal homeowners will only make them even less willing to write along the coast.

"Connecticut has a functioning homeowners insurance market in which property owners are able to obtain coverage. The department report found as much itself. Nevertheless, the report outlines onerous restrictions," said Paul Tetrault, Northeast state affairs manager for National Association of Mutual insurance Companies.

According to Tetrault, the restrictions are the wrong way to go.

"Not only are these restrictions unwarranted, they are counterproductive since they will have an effect that is the precise opposite of what is intended. They will actually be detrimental to the proper functioning of the market. The way to keep a market healthy is to preserve insurers' freedom to underwrite and price business in accordance with the risk. Restricting that freedom, on the other hand, and not allowing insurers to evaluate risk and respond accordingly, can only make matters worse," he added.

According to Kristina Baldwin, regional manager and counsel for Property Casualty Insurers of America, Connecticut's new guidelines are" among the most restrictive in the nation" and they "greatly limit" insurers' ability to manage their coastal exposure.

"Our experience has been that restrictions of this nature create a less competitive insurance market resulting in fewer choices for consumers," Baldwin aid.

Baldwin said that Cogswell's rules, while "presumably" intended to enhance insurance availability and affordability in Connecticut's coastal areas, "ignore market realities, storm predictions and the laws of economics."

Under the rules on mitigation and shutters, consumers will be allowed to use a variety of loss mitigation measures recommended by the Institute for Business & Home Safety, including plywood shutters or impact resistant glass. Carriers may also apply a hurricane deductible. If both loss mitigation measures and deductibles are imposed, companies are required to reduce a consumer's premiums or deductibles.

Companies will be able refuse to issue new policies for consumers who fail to take any of the mitigation measures but can only refuse to renew a policy if the insured refuses to employ any of the mitigation options (including plywood) and if the insured refuses to accept a hurricane deductible.

Baldwin questioned giving leeway to consumers but restricting insurers in their mitigation steps. "Requiring consumers to take reasonable steps to protect their property and reduce their exposure to storm related losses allows companies to write more coverage in coastal areas. The new guidelines greatly limit the extent to which insurers can require homeowners to employ mitigation measures. Under these guidelines, insurers must offer homeowners a choice of the type of mitigation measure that they would like to employ, including the use of plywood as an option. Plywood provides absolutely no protection if it is not installed properly and the insurer has no way of knowing whether the homeowner will be available to, or capable of installing the plywood prior to a storm," Baldwin claimed.

Cogswell is also recommending that the state create a voluntary Coastal Market Assistance Plan (C-MAP) in which risks could be

presented to insurers on a voluntary basis for their consideration as an alternative for those homeowners who cannot afford loss mitigation measures and deductibles, or do not want an excess and surplus lines policy.

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But if the voluntary approach of a C-MAP does not work, she will recommend that the FAIR Plan expand to offer a full homeowners policy.

While insurers do not see Cogswell helping the availability problem she set out to improve, Cogswell isn't budging. Debra Korta, Cogswell's spokesperson, said Cogswell intends to proceed with implementation of the new rules.

As for how the new plan does not help improve availability, Korta pointyed to the C-MAP proposal as a way to address that concern. As for how the rest of the new rules would address this problem, she would only say, "The commissioner believes the guidelines will enhance consumer choices."

The report and recommendations are based on a public hearing Cogswell held in September following a public outcry over a decision allowing one insurer, Andover Insurance, to require homeowners living within a mile from the coast to install special storm shutters on their homes or face non-renewal of their policy.

"I clearly heard the frustration and anger from homeowners when the department approved Andover's shutter guidelines," said Cogswell.

At the September forum, coastal residents complained about the cost of installing shutters and questioned the catastrophe models used by insurers to gauge storm exposure.

Also, agents relayed anecdotal evidence that "insurance carriers are not writing homeowners insurance policies along the coast in violation of their filed underwriting guidelines," according to the report.

Attorney General Blumenthal, who months ago called on Cogswell to stop insurers from requiring expensive storm shutters, said Cogswell's new policy has come too late to help many consumers and that insurers' practices need to be more closely examined.

"While this reversal is welcome, these insurance practices should have been dead on arrival," Blumenthal claimed. "The decision to rescind her own approval was needlessly delayed - causing anxiety and apprehension to homeowners."

He said Cogswell should have gone further in her report to demand "explanations from reinsurance companies that have doubled, even tripled, their rates in the United States, while increasing rates by only 2 percent for the rest of the world."

Finally, Blumenthal said the coastal underwriting practices of insurers merit further investigation.

"I am continuing my investigation into the underlying reasons driving insurers to seek unjustified, even unconscionable requirements for consumers - and other business practices that may implicate Connecticut's antitrust laws," he vowed.

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