HOMEOWNERS INSURANCE IN CONNECTICUT

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HOMEOWNERS INSURANCE

According to the Insurance Information Institute, homeowners insurance generally covers:

- a home's physical structure,
- an insured's personal belongings,
- liability, and
- additional living expenses if the home becomes unlivable.

ISSUE

Describe state law regulating homeowners insurance policy rates. Explain how personal (e.g., noncommercial) homeowners insurance rates are filed and approved.

This report updates OLR Report 2012-R-0227.

SUMMARY

By law, insurers must file rates and supporting information with the Connecticut Insurance Department (CGS § 38a-688). Connecticut uses a "file and use" regulatory system for personal risk insurance (e.g., home, auto, marine, or umbrella), which means insurers may generally file and use rates without waiting for approval from the department. In general, the insurance commissioner must approve actuarially justified rates that are not excessive, inadequate, or unfairly discriminatory.

MARKET COMPETITIVENESS

The rate filing and approval process depends on whether Connecticut's homeowners insurance market is "competitive." By law, a competitive market is "presumed to exist" unless otherwise determined by the insurance department (CGS § 38a-687). According to the department, the personal homeowners' insurance market is currently competitive.

The commissioner determines competitiveness by looking at specific insurance lines (e.g., the homeowners' market competitiveness at specific coverage levels), certain geographic areas (e.g., coastline competitiveness), and other factors, including the number of insurers and sales (CGS § 38a-687). In practice, a combination of these factors are used to verify market competitiveness, including the number of insurers competing for business, the number (or lack thereof) of consumer complaints, and the actuarial justifications for certain policies. As one example of competitiveness, the department notes that over 100 licensed insurers write property business in the state. ("Writing" is an insurance term of art, and refers to an insurer underwriting a particular consumer).

The commissioner may only deem a market noncompetitive by determining, after a hearing, that a "reasonable degree of competition" does not exist. A ruling must be issued to this effect, which remains valid for three years unless renewed by the commissioner. During the second year of such a ruling, an insurer may request the commissioner reconsider (CGS § 38a-687).

RATE FILING PROCESS

Insurers submit to the department initial rate requests or rate change requests, along with any actuarial material necessary to justify the rate (CGS § 38a-688(a)). Initial rate requests refer to new policies being written, while rate changes affect policies already in force.

Insurers may file rate changes at any time, but generally a company files changes about once a year. According to the insurance department, the costs to calculate and file supporting documentation make more frequent filing impractical. There is no statutory or regulatory limit to the amount an insurer may increase or decrease rates, but all rates must be actuarially justified.

In a competitive market like Connecticut's, most insurers must file rates by the earlier of (1) their effective date or (2) the date bills reflecting the new rates are sent to insureds or agents. If the commissioner determines, after a hearing, that an insurer's rates require closer supervision due to the insurer's financial condition or unfairly discriminatory rating practices, the insurer must file rates at least 30 days before the proposed effective date.

In a non-competitive market, rates and supporting information must be filed at least 30 days before their proposed effective date. The commissioner may request, in writing, an additional 30 days to review the rates. Rates are deemed approved after the review period unless disapproved by the commissioner. If rates are disapproved, the commissioner must notify the insurer in writing of the reasons (CGS § 38a-688(a)(2)).

Flex Rating Exception

In certain circumstances, the law allows insurers to file new personal risk insurance rates with the insurance commissioner and begin using them immediately. Under this type of rate filing, called a "flex rating," an insurer may submit rates and use them immediately as long as the aggregate rate changes submitted within a 12-month period do not (1) increase or decrease by more than 6% statewide, (2) increase by more than 15% in any individual territory, or (3) apply on an individual insured basis (CGS § 38a-688a).

PA 15-185 extended the flex rating law sunset date from July 1, 2015 to July 1, 2017.

RATE REVIEW AND APPROVAL PROCESS

By law, the insurance commissioner's authority to approve or disapprove personal risk insurance rates, including homeowners insurance rates, depends on whether the market is competitive. In a competitive market, the commissioner must approve all rates that are not inadequate or unfairly discriminatory. In practice, the department also reviews rates to ensure that insurance policies remain accessible across the state, particularly in the coastal market.

In a non-competitive market, the commissioner must approve all rates that are not excessive, inadequate, or unfairly discriminatory (CGS § 38a-688(b)(2)).

Excessive

By law, a rate in a competitive market is not excessive. A rate in a noncompetitive market is excessive if it is unreasonably high for the coverage the insurance provides (CGS § 38a-686(a)(1)).

Inadequate

By law, rates are inadequate if they are unreasonably low for the insurance coverage provided and their use would endanger the insurer's solvency, destroy competition, or create a monopoly (CGS § 38a-686(a)(2)).

Unfairly Discriminatory

The law does not define an unfairly discriminatory rate. However, rating plans that establish appropriate eligibility criteria for determining qualifying significant risks are, by law, not unfairly discriminatory (CGS § 38a-686(b)(5)).

Insurance Department Rate Reviews

Although Connecticut uses a “file and use” system for most homeowners insurance rate filings, the insurance department still conducts actuarial reviews. The department can require insurers to change rates that are not actuarially justified or otherwise fail to meet the law’s requirements. For most rate filings, any rate change required in this way is retroactive. For flex-ratings, such changes are only required to be prospective.

In certain circumstances, companies must obtain commissioner approval prior to using rates. If, after a hearing, the commissioner determines an insurer’s rates require closer supervision because of the insurer’s financial condition or unfairly discriminatory rating practices, the commissioner may require the insurer to obtain preapproval.

CONSUMER COMPLAINTS

Consumers unhappy with rate increases may shop for additional insurance quotes. Consumers who want more information on a specific increase can contact the department’s Consumer Affairs Unit, which investigates specific policies.