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STATEMENT RE: H.B. 6365
"*An act concerning insurance for municipalities."*

To: Insurance and Real Estate Committee
By: Professional Insurance Agents of Connecticut Inc.
On: Feb. 23, 2011

The Professional Insurance Agents of Connecticut Inc. (PIACT), an association representing more than 500 member independent insurance agents who employ over 3,500 people across the state, has concerns with this legislation and urges the committee not to advance this bill.

The bill requires that all insurance maintained by a municipality shall, prior to renewal, be submitted for competitive bid. The bill also requires any rate quotes submitted by a producer list the producer's commission as a line item.

The first element of the bill, while well-intentioned, will almost certainly cause signif-cant problems for the municipalities that would be required to shop their insurance prior to renewal, as well as the insurance producers submitting the coverage for bidding.

Certain risks, such as municipal liability, have limited markets and producers may only be able to submit this risk to two or three companies who write this particular class of business; a class of business that requires substantial underwriting effort to develop a quote. A diligent producer, according to settled law, owes insurance purchasers the exercise of reasonable skill, care and diligence in effecting the placement of insurance. Such a producer is charged with knowing the marketplace and understanding whether the renewal quote is competitive, as well as understanding the appetites for specific risks across the marketplace.

Requiring a producer to override his or her professional judgment to repeatedly seek quotes from companies (at significant cost and effort to the companies to analyze and underwrite the risk) that historically have not been appropriate or competitive is counter productive. When a producer repeatedly approaches a company with bids that are never placed, the insurer soon declines to entertain the submissions—an outcome colloquially known as burning out a market. By requiring producers to blindly shop a large, complex risk at the end of a policy term, as opposed to when it is indicated by market factors and the needs of the buyers, more markets will be burned out, possibly causing a disruption in this particular market.

Many municipalities operate under multi-year contracts. Although these contracts are in operation for (frequently) three years, they require, for technical reasons, an annual renewal. These multi-year contracts benefit the municipality as the rates and coverages are locked and the rate of increase is known, and often more advantageous than year-to-year contracts. In light of the particularly harsh winter we have been experiencing, many municipalities have benefited from having this winter's loss experience be weighed along with other years with less costly experience. Requiring a municipality in the midst of a

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multi-year contract to submit its insurance for competitive bid before renewal could have the effect of significantly negatively impacting the municipality.

Finally, the bill requires that a producer list his or her commission on a separate line item on the quote. PIACT believes that this requirement is superfluous as producers are already required under law to submit disclosure regarding any fees or commission they are receiving. Furthermore, requiring this disclosure as a specific item on the bid is likely to invite purchasers to attempt to negotiate this amount. Doing so would place both the purchaser and producer in jeopardy of violating Connecticut General Statutes Section 38a-825, which prohibits a person from offering (or a person from receiving) as inducement to insurance, any premium rebate or any special favor or advantage or any valuable consideration or inducement not specified in the policy of insurance.

Sincerely,

HOWARD OLDERMAN
PIACT President