OFFICE OF LEGISLATIVE RESEARCH

Objective Research for Connecticut's Legislature

ResearchReport

Homeowners Insurance in Rural Connecticut

By: Alex Reger, Principal Analyst

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Issue

Summarize laws and regulations governing how property and casualty insurers may decline to write new homeowners insurance policies in rural Connecticut.

Summary

Property and casualty insurers, which issue homeowners insurance policies, may choose who to insure based on various risk factors and may also decline to insure homes with increased risk. State laws and regulations generally (1) govern when an insurer may decline to renew or cancel a policy due to increased risk and (2) prohibit "redlining," which occurs when an insurer discriminates based on an insured's location, among other factors.

While insurers may price risks differently based on where in the state the property is located, they may not refuse to issue policies solely based on an insured's geographic location. However, an insurer may decline to insure (or may raise premiums) according to risks that are indirectly related to a home's geographic location, such as distance to the nearest emergency services or fire station.

The Connecticut Insurance Department is unaware of property and casualty insurers declining to write any new coverage in rural Connecticut. However, the department noted that some areas, particularly the coastline, are "hardening" markets (i.e., premiums are rising and insurers' capacity for risk is declining).

Homeowners Insurance Declinations and Cancellations

Property and casualty insurers may set premium rates according to a variety of factors that reflect the insured's risk. For example, according to Progressive, this includes a property's location (including the location's crime rate and proximity to potential environmental hazards, such as flooding or wildfires), the type, age, and building materials used in the home, and any prior claims. Additionally, state law allows insurers to group risks for personal risk insurance (which includes homeowners insurance) by classification (e.g., risk categories).

State law prohibits an insurer from declining, cancelling, or not renewing a policy based solely on (1) one or more nationally recognized catastrophic events (see below) or (2) a claim payment made by the insurer of $500 or less (however, this prohibition does not apply if the insured has filed more than one claim from a non-catastrophic event in the previous three years) (CGS §§ 38a-316d and 38a-686).

Cancellation

Additionally, state law prohibits insurers from canceling nonrenewal (e.g., new) policies in effect for at least 60 days and renewal policies for other than:

1. premium nonpayment,
2. fraud or misrepresentation of a material fact by the insured, or
3. any physical change in the covered property that materially increases an insurer's risk of loss.

An insurer cancelling for one of these reasons must send a written cancellation notice to the named insured at least 30 days before the cancellation effective date (10 days if for premium nonpayment) (CGS § 38a-316g).

Nonrenewal

Generally, insurers declining to renew existing policies must send notice to the insureds at least 60 days before the policy ends and provide a reason for the nonrenewal. Additionally, insurers renewing policies on less favorable terms to the insured must meet additional notice requirements (e.g., clearly identifying the coverage reduction) (CGS § 38a-323).

Superstorm Sandy Law

In 2013, in response to Superstorm Sandy, the legislature enacted PA 13-138 (and subsequently amended it in 2014 by enacting PA 14-175) to prohibit an insurer from declining to issue or renew a homeowners insurance policy or cancelling one solely because of losses incurred during one or more catastrophic events (e.g., a storm or series of storms). A catastrophic event must be declared as such by a national catastrophic loss index provider. However, an insurer does not violate this provision if coverage is available through an affiliated insurer (CGS § 38a-316d(a)).

Connecticut Redlining Regulations

State law required the insurance commissioner to adopt regulations to prohibit "redlining," which occurs when an insurer discriminates based on an insured's location, among other factors (CGS § 38a-824). The adopted regulations specifically apply to insurers licensed to write homeowners insurance on residential property in Connecticut, as well as their officers, representatives, agents, and employees. They identify the acts that, if committed as a general practice, constitute unfair discrimination, including (1) refusing to issue homeowners policies solely because the property is located in a particular urban area or neighborhood, city, or town or (2) varying certain insurance policy terms (e.g., deductibles) based on the property's geographic location (Conn. Agencies Regs., § 38a-824-1 et seq.).

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