
OLR Bill Analysis

sHB 6981

AN ACT CONCERNING ELECTRONIC POSTING OF CERTAIN DOCUMENTS BY INSURERS, NONRENEWAL OR CANCELLATION OF PROPERTY AND CASUALTY INSURANCE POLICIES, FEDERAL HOME LOAN BANKS AND THE INSURERS REHABILITATION AND LIQUIDATION ACT, HYPOTHECATION OF ASSETS AND SURPLUS LINES INSURANCE.

SUMMARY

This bill makes numerous changes to insurance statutes. Primarily, it does the following:

1. allows insurers to (a) post insurance policies on their websites instead of mailing them, if certain conditions are met, and (b) send cancellation notices using the U.S. Postal Service's intelligent mail barcode (USPS IMb) tracking system;
2. amends the Insurers Rehabilitation and Liquidation Act to allow certain activities to proceed when a Federal Home Loan Bank is a party to an agreement with an insurer that is under conservation, rehabilitation, liquidation, or administrative supervision by the Connecticut Insurance Department; and
3. exempts brokers from a requirement that they document their diligent efforts to place coverage through a licensed insurer before placing it through an unaffiliated wholesale surplus lines broker.

Lastly, the bill requires the insurance commissioner to study digital insurance payment processing systems. The study must analyze system innovations that may improve consumer experience, reduce costs, enhance transaction security, and expedite claim resolutions. The commissioner must report findings and legislative recommendations to the Insurance and Real Estate Committee by February 1, 2026 (§ 16).

EFFECTIVE DATE: October 1, 2025, except the USPS IMb provisions are effective July 1, 2025, and the study requirement (§ 16) is effective upon passage.

§§ 1 & 2 — ELECTRONIC INSURANCE DOCUMENTS

Electronic Posting of Insurance Documents (§ 1)

The bill allows insurers to post certain insurance policies and endorsements on their websites instead of mailing or delivering them to an insured as long as the documents do not include personally identifiable information. This applies to a policy, contract, certificate, plan, or agreement for life insurance, health insurance, credit life insurance, credit health insurance, annuities, personal homeowners insurance, or personal automobile insurance.

The bill requires that if an insurer posts these documents on its website, it must do the following:

1. post and have them accessible for as long as the policy is in force and in a way that lets the insured save and print them using readily available free Internet applications;
2. keep records of an expired policy and any endorsements for five years after their expiration date and make them available upon request;
3. give an insured with each declarations page provided at policy issuance or renewal (a) a description of the policy and any endorsements, (b) a way for the insured to get a paper copy of the documents for free, and (c) the website address where the documents are posted;
4. when a policy or endorsement changes, give the insured notice of the changes and how he or she may get a paper copy of the documents for free upon request; and
5. notify the insured that he or she may request to opt out of the electronic delivery of documents at any time.

Under the bill, if an insured requests to opt out of electronic delivery of documents, the insurer must mail or deliver a paper copy to the insured instead of posting them on their website.

Health Insurance Plan Sponsor Election for Insureds (§ 2)

The bill allows an insurer and certain other health care entities to let a health insurance policy plan sponsor agree on behalf of the policy's covered individuals to electronic delivery of policy communications, as long as a covered individual may opt out of electronic delivery at any time.

This applies to each insurer, health care center (i.e. HMO), hospital or medical service corporation, fraternal benefit society, or other entity that delivers, issues, renews, amends, or continues a health insurance policy offered by a plan sponsor.

§§ 3-8 — U.S. POSTAL SERVICE INTELLIGENT MAIL BARCODE TRACKING

The bill lets property and casualty insurers send policy cancellation and nonrenewal notices by U.S. Postal Service intelligent mail barcode (USPS IMb) or similar USPS tracking method. This applies generally to property and casualty policies, including homeowners insurance policies (§ 4), personal and commercial risk policies (§§ 5 & 7), and auto insurance policies (§ 8).

For insureds who have effectively designated a third party to receive cancellation or nonrenewal notices, the bill also lets a property and casualty insurer require the insureds and third parties send their notices terminating a third-party designation to the insurer by USPS IMb or similar USPS tracking method (§ 6).

Existing law allows the use of other delivery methods for sending cancellation and nonrenewal notices and third-party designations, including certified mail, mail with return receipt requested, or electronic means.

USPS IMb is a barcode used to sort and track letters within the postal system that identifies the mail's location and estimated delivery times.

§§ 9-13 — FEDERAL HOME LOAN BANKS AND THE INSURERS REHABILITATION AND LIQUIDATION ACT

The bill modifies the Insurers Rehabilitation and Liquidation Act (see BACKGROUND). It allows certain activities to proceed regardless of current prohibitions when a Federal Home Loan Bank (FHL Bank) (see BACKGROUND) is a party to any pledge, security, credit, collateral, loan, advance, reimbursement, or guarantee agreement with an insurance company under conservation, rehabilitation, liquidation, or administrative supervision by the Insurance Department.

Automatic Stays (§ 10)

The bill eliminates, for up to 10 business days, the automatic stay that an application or petition for a delinquency proceeding, rehabilitation, or liquidation order currently grants when an FHL Bank is a party. The 10-day period begins from the date of any order starting a delinquency proceeding, whether it is formal, informal, administrative, or judicial.

By law, the stay prohibits anyone other than a receiver from engaging in a wide range of activities that might lessen the value of an insurer's assets or prejudice the rights of policyholders, creditors, or shareholders. These include transferring property, wasting assets, and obtaining judgments against the insurer or its policyholders, among other things. The stay becomes permanent and survives the entry of a conservation, rehabilitation, or liquidation order, but the court may modify or grant relief from the stay.

Fraudulent Transfers (§ 11)

Existing law (1) makes a person receiving any property or benefit from an insurer through a fraudulent transfer or obligation personally liable and accountable to the liquidator and (2) allows certain receivers to avoid the transfer or obligation. A transfer or obligation is considered fraudulent if it is made or incurred within one year before the successful filing of a petition for rehabilitation or liquidation without fair consideration or with actual intent to hinder, delay, or defraud creditors.

Under the bill, a receiver or any other person generally cannot avoid a transfer or obligation that would be considered fraudulent under

existing law if it arises in connection with any agreement to which an FHL Bank is a party. But the bill allows the receiver or other person to avoid the transfer or obligation if it was made or incurred with actual intent to hinder, delay, or defraud the insurer, receiver, or creditors.

Preferences (§ 12)

To the extent agreements to which an FHL Bank is a party have preferences to creditors, the bill requires an insurer's liquidator carry a preference out. Under existing law, a "preference" is a transfer of the insurer's property to or for the benefit of a creditor, within one year before the filing of a petition for liquidation, that enables the creditor to obtain a greater percentage of debt than another creditor of the same class. Current law allows a liquidator to avoid giving a preference in certain circumstances.

Requirements When Exercising Collateral Rights (§ 13)

When an insurer that is an FHL Bank member is subject to a delinquency proceeding, the bill sets requirements for how the FHL Bank may exercise its collateral rights.

Specifically, under the bill, if the FHL Bank exercises its rights regarding collateral the insurer pledged, the bank must repurchase any outstanding capital stock that exceeds the amount the insurer is required to hold as a minimum investment. The bank must do this within seven business days after the delinquency proceeding if the bank determines in good faith that the repurchase is (1) permissible under applicable laws and regulations and the bank's capital plan and (2) consistent with its capital stock practices that apply to its entire membership.

After a receiver is appointed for the insurer, the FHL Bank must, within 10 business days after a request from the receiver, provide the receiver with a process and develop a timeline for the following:

1. releasing the insurer's collateral that exceeds the amount required to support any remaining secured obligations after repaying any loans, in accordance with any agreements between

- the insurer and bank;
2. releasing any of the insurer's remaining collateral after repaying all the insurer's outstanding secured obligations in full;
 3. paying any fees the insurer owes and the operation, maintenance, closure, or disposition of deposits and other accounts the insurer has with the bank; and
 4. possibly redeeming or repurchasing the bank's stock or excess stock of any class that the insurer must hold as an FHL Bank member.

Additionally, the FHL Bank must, upon a receiver's request, provide it with any available options for the insurer to renew or restructure a loan. The options must be subject to market conditions, the terms of the insurer's outstanding loans, the FHL Bank's applicable policies, and the FHL Bank's compliance with federal laws and regulations.

§ 14 — HYPOTHECATION OF ASSETS

By law, domestic insurers, HMOs, and fraternal benefit societies are prohibited from pledging, hypothecating, or otherwise encumbering their assets to secure their own debt, guaranty, or obligations without the insurance commissioner's prior written consent if the amount to be encumbered, along with all other encumbrances, exceeds the lesser of 5% of admitted assets or 25% of policyholder surplus. However, this does not apply to transactions made in the ordinary course of business.

The bill explicitly specifies that "the ordinary course of business" includes participating in the FHL Bank system, such that the hypothecation of assets prohibition does not apply in that circumstance.

§ 15 — DILIGENT EFFORTS TO PLACE INSURANCE

The bill exempts brokers who seek to procure or place an insurance policy through an unaffiliated wholesale surplus lines broker from a requirement that they keep documentation indicating that they made diligent efforts to obtain the insurance from a licensed insurer.

By law, the insurance commissioner must maintain a list of insurance lines that he believes are generally unavailable from licensed insurers (CGS § 38a-741(a)). Such insurance may be provided by surplus lines insurers, whose policies are not reviewed by the Insurance Department.

BACKGROUND

Insurers Rehabilitation and Liquidation Act

The Insurers Rehabilitation and Liquidation Act generally protects the interests of policyholders, claimants, creditors, and the general public in the event of an insurance company's insolvency. It gives the insurance commissioner broad authority to monitor the financial condition of insurers and, when he believes necessary, to place them under administrative supervision or, with court approval, conservation, rehabilitation, or liquidation (CGS § 38a-903 et seq.).

FHL Banks

There are currently 11 regional FHL Banks across the United States. Created by Congress in 1932, each FHL Bank is a member-owned, federally chartered cooperative that provides funding and liquidity to their members to support housing finance and community development.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 11 Nay 2 (03/11/2025)