LEGISLATIVE POSITION

PROFESSIONAL INSURANCE AGENTS OF CONNECTICUT INC.

25 Chamberlain St.
PO Box 997
Glenmont, NY
12077-0997
(800) 424-4244

LEGISLATIVE REPRESENTATIVE
The Connecticut Group LLC

DIRECTOR OF GOVERNMENT & INDUSTRY AFFAIRS
Bradford J. Lachut, Esq.

EXECUTIVE DIRECTOR
Kelly K. Norris, CAE

DATE: Feb. 27, 2025

FROM: Bradford J. Lachut, Esq.
Director of Government & Industry Affairs
Professional Insurance Agents of Connecticut Inc.

TESTIMONY BEFORE: Connecticut General Assembly Insurance and Real Estate Committee

STATEMENT RE: **SUPPORT OF HOUSE BILL NO. 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

Good morning Chairpersons Wood and Cabrera, Ranking Members Pavalock-D'Amato and Hwang, and Members of the Committee. My name is Bradford Lachut, and I serve as the Director of Government & Industry Affairs for the Professional Insurance Agents of Connecticut (PIACT). I appreciate the opportunity to testify in support of H.B.6981, which would remove the due-diligence requirement for placing risks in the non-admitted marketplace when done through an unaffiliated surplus-lines broker.

This bill is a necessary step toward ensuring that Connecticut businesses can efficiently secure specialized insurance coverage without unnecessary regulatory hurdles. By modernizing our approach to surplus-lines placements, H.B.6981 would help businesses obtain the coverage they need while preserving strong consumer protections.

The importance of the E&S market

The excess-and-surplus-lines (E&S) market is a critical safety net for businesses and individuals who cannot obtain coverage from standard, admitted insurers. It provides insurance solutions for unique, volatile, distressed, or emerging risks, ensuring that Connecticut businesses and consumers are not left unprotected when admitted carriers decline to write coverage.

The flexibility of the E&S market is essential in protecting businesses that might otherwise go uninsured, leaving them financially vulnerable in the face of unforeseen events. To maintain a healthy and competitive insurance marketplace, Connecticut's E&S market must operate efficiently, without outdated administrative barriers that slow down access to coverage.

- continued -

Reducing barriers to placing surplus-lines coverage
Current Connecticut law requires brokers to obtain declinations from admitted insurers before securing E&S coverage, even when it is evident that the admitted market cannot provide the necessary policy. This does not enhance consumer protection; rather, it imposes an administrative burden that delays coverage and increases costs for brokers and policyholders alike.

The due-diligence requirement creates significant administrative work that only confirms what brokers and policyholders already know—that admitted insurers will not cover the risk. In practice, this requirement serves no real purpose beyond delaying access to necessary coverage.

Insurance brokers are highly trained professionals who already know whether coverage is available in the admitted market. Requiring them to obtain unnecessary declinations wastes time and resources while doing nothing to enhance consumer protection.

Many brokers have expressed frustration with this outdated requirement, noting that it is simply an additional document that must be collected rather than a meaningful safeguard. By removing this requirement, H.B.6981 ensures that businesses and individuals in need of surplus-lines coverage can secure their policies more quickly and efficiently, without unnecessary red tape.

Consumer protections remain strong
While this bill removes an unnecessary administrative requirement, it does not reduce consumer protections. Consumers cannot directly access the E&S market—they can only purchase surplus-lines policies through a licensed insurance broker, ensuring that all placements are handled by trained professionals who understand the complexities of the market.

Additionally, brokers already have professional and ethical obligations to place policies in the admitted market first whenever possible. Many brokers also are required by their errors-and-omissions (E&O) insurance policies to attempt admitted market placement before turning to the surplus lines market.

Beyond these obligations, economic incentives naturally drive brokers to use the admitted market first. When a broker places business through a wholesale surplus-lines broker, they often must split their commission and may have to work with an insurer with whom they do not have a direct appointment. These financial realities already encourage brokers to seek coverage in the admitted market whenever possible, making an additional legal requirement redundant and unnecessary.

- continued -

H.B.6981 does not change how brokers assess whether a policy belongs in the admitted or non-admitted market. It simply removes a bureaucratic step that adds no value while causing unnecessary delays in securing appropriate coverage.

Connecticut is falling behind other states
Several states have already modernized their surplus-lines market by eliminating outdated due-diligence requirements. Louisiana, Mississippi, Virginia, and Wisconsin have completely removed the requirement for brokers to obtain declinations before placing coverage in the non-admitted market.

These states recognized that forcing brokers to confirm what they already know—that the admitted market cannot provide coverage—serves no practical purpose. Since implementing these reforms, these states have experienced more efficient surplus-lines placements while maintaining strong regulatory oversight.

By passing H.B.6981, Connecticut would align itself with these forward-thinking states and remove an outdated requirement that unnecessarily delays access to critical insurance coverage. Without this change, Connecticut risks putting its businesses and consumers at a competitive disadvantage compared to states that have already modernized their approach to surplus-lines placement.

Technical correction
While PIACT strongly supports H.B.6981, we recommend one technical correction to the bill's language to ensure it properly reflects industry practice.

As currently drafted, the bill states that:

"Any policy of insurance where the surplus-lines broker seeks to procure or place such insurance through an unaffiliated wholesale surplus-lines insurance broker" is exempt from due-diligence requirements.

However, this language applies only to a narrow set of transactions and does not reflect the most common industry practice, which involves a retail broker working with a wholesale surplus-lines broker.

To correct this, we recommend revising the language to state:

"Any policy of insurance where the broker seeks to procure or place such insurance through an unaffiliated wholesale surplus-lines insurance broker."

- continued -

This small but necessary revision ensures that the exemption applies broadly to the typical retail broker-to-wholesale broker transactions that occur in the surplus-lines market. Without this correction, the bill could unintentionally exclude many transactions it aims to cover, limiting its effectiveness.

Conclusion: Why H.B.6981 must pass

Connecticut has an opportunity to align itself with other states that have eliminated unnecessary surplus-lines placement barriers while maintaining strong consumer protections. The current due-diligence requirement is outdated, inefficient, and serves no practical purpose beyond delaying access to coverage.

H.B.6981 modernizes Connecticut's approach by removing this unnecessary step, ensuring that businesses and individuals who need surplus-lines coverage can obtain it without regulatory obstacles. By passing this bill, Connecticut will create a more competitive, efficient, and consumer-friendly surplus-lines market.

The Professional Insurance Agents of Connecticut Inc. strongly urges the passage of H.B.6981 to bring Connecticut's regulatory framework in line with best practices already adopted by other states.

Thank you for your time and consideration. I welcome any questions.