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TO THE HOUSE COMMITTEE ON HEALTH

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Friday, February 1, 2008
8 a.m.

TESTIMONY ON HOUSE BILL NO. 3095 – RELATING TO INSURANCE.

TO THE HONORABLE JOSH GREEN, M.D., CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner (“Commissioner”),
testifying on behalf of the Department of Commerce and Consumer Affairs
(“Department”). The Department strongly supports this Administration bill.

The purpose of this bill is to make Article 11 of the Insurance Code, Hawaii
Revised Statutes (“HRS”) chapter 431, expressly applicable to mutual benefit societies
and allow the Commissioner to monitor the relationship and transactions between
mutual benefit societies and their affiliates and among the affiliates of mutual benefit
societies, in the same manner as presently authorized for other insurers.

Specifically, it will bring controlled affiliate transactions up to the standards set
forth in HRS § 431:11-106 and allow the review of affiliated transactions. Mutual benefit
societies will be required to file registration statements describing their affiliate network.

Currently, certain mutual benefit societies conduct the business of insurance
through the extensive use of affiliates. Regulatory oversight of affiliate transactions are
required, because they are not always independent or “arm’s length” transactions.
Current law is unclear whether the Commissioner is authorized to take enforcement
action regarding affiliated transactions conducted by mutual benefit societies.

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Mutual benefit societies are no longer simple membership organizations owned and maintained for the benefit of their members. Some mutual benefit societies have become largely dormant, offering few benefits to few members, but holding substantial amounts of cash. Other mutual benefit societies are used as shell companies to divert profits to affiliates privately owned and controlled by management, and not operated for the benefit of members. Other mutual benefit societies have become investment vehicles for investors to hold investments and subsidiaries that have business dealings with affiliates.

The intent of this measure is to ensure that mutual benefit society members are not being harmed by providing oversight of these types of complex corporate and financial arrangements.

We thank this Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.