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TO THE SENATE COMMITTEE ON COMMERCE,
CONSUMER PROTECTION, AND AFFORDABLE HOUSING

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Monday, February 25, 2008
9:00 a.m.

TESTIMONY ON SENATE BILL NO. 3025 – RELATING TO INSURANCE.

TO THE HONORABLE RUSSELL KOKUBUN, 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 clarify: (1) licensing provisions in Hawaii Revised
Statutes (“HRS”) chapter 431, Articles 9A and 9C, governing insurance producers and
managing general agents (“MGA”), respectively; and (2) filing requirements in Article 20
governing title insurers.

An MGA is an agent of the insurer that manages all or part of the insurer’s
business. Current law requires an applicant for an MGA license to furnish proof of a
bond and an errors and omission policy in unlimited amounts as a condition of licensure
in HRS § 431:9C-102. These amounts are unlimited, as they are based upon a
percentage of gross direct written premium.

Since the insurer is ultimately responsible for an MGA’s acts, it is more
appropriate to place these requirements with the insurer in HRS § 431:9C-103 (rather
than as a condition of licensure) and to impose a \$0.5 million cap for the bond and to

set a \$1 million minimum for the E&O policy. The Insurance Division has received reports of the difficulty and cost of getting bonds for large amounts. These revisions provide conformity with the current National Association of Insurance Commissioners ("NAIC") model law, promote uniformity among state insurance laws, provide administrative efficiency, and reduce the cost of compliance for MGA's.

Amending HRS § 431:9A-112 clarifies the Commissioner's authority to summarily suspend an insurance producer's license pending hearing, in conformity with HRS § 431:2-308. This amendment will promote consistency within the Insurance Code.

Currently, foreign and alien insurers that file annual and quarterly financial reports with the NAIC are not required to file hard copies of these reports with the Commissioner, pursuant to HRS §§ 431:3-301 and 431:3-302. Amending HRS § 431:20-122 clarifies that foreign and alien title insurers are not required to file a hard copy of their annual and quarterly financial reports with the Commissioner, in conformity with HRS §§ 431:3-301 and 431:3-302. This will promote administrative efficiency, provide consistency within the Insurance Code, and reduce the cost of compliance for foreign and alien title insurers.

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