

HB 1045

HD1, SD1



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TO THE SENATE COMMITTEE ON WAYS AND MEANS

TWENTY-SIXTH LEGISLATURE

Regular Session of 2011

Wednesday, March 30, 2011

9:30 a.m.

WRITTEN TESTIMONY ONLY

TESTIMONY ON HOUSE BILL NO. 1045, H.D. 1, S.D. 1 – RELATING TO INSURANCE.

TO THE HONORABLE DAVID IGE, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). Thank you for hearing this bill. The Department strongly supports this Administration bill, with requested technical amendments.

The purpose of this bill is to adopt the National Association of Insurance Commissioners' ("NAIC") Risk-Based Capital for Health Organizations Model Act. The intent of this model act is to apply consistent regulatory treatment to health maintenance organizations ("HMO"), mutual benefit societies ("MBS"), fraternal benefit societies ("FBS"), managed care plans, and similar risk-bearing entities.

The S.D. 1 made technical amendments to the bill. The companion measure, Senate Bill No. 1272, S.D. 2, had a triple referral and was not heard by the House.

Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurer to support its overall business operations, in consideration of its size, structure, and risk profile. The risk-based capital regime allows for graduated regulatory intervention that is appropriate for the level of trouble that an insurer finds

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itself in. It helps the Insurance Division to be pro-active in protecting consumers from the hardship of insurer insolvencies.

Risk-based capital requirements are currently contained in part IV of article 3, of the Insurance Code, HRS chapter 431. These provisions expressly apply to property and casualty insurers and life or accident and health or sickness insurers. Risk-based capital requirements should be extended to include MBS, FBS, and HMO, because the federal health reform under the Patient Protection and Affordable Care Act will introduce significant uncertainty into the market.

Adoption of NAIC model laws and regulations is essential for the Insurance Division to retain NAIC accreditation. The NAIC financial regulation standards and accreditation program ensures that each state has adequate solvency laws and regulations to protect consumers and guarantee funds.

Section 1 of the S.D. 1 amends HRS § 431:3-401 by adding three new definitions. In defining the term "benefit society", the S.D. 1 substituted "registered" or "organized" for "authorized". For consistency within the Insurance Code, the Department respectfully requests that the definition use the word "authorized", rather than "registered" or "organized", such that page 1, lines 6-8, reads:

"Benefit society" means a mutual benefit society authorized under section 432:1-301 or a fraternal benefit society authorized under section 432:2-301.

Section 6 of the S.D. 1 amends HRS § 431:3-409 by adding a new subsection (d) to provide an exemption for any domestic benefit society or HMO that only writes direct business in this State, has less than 5% of reinsurance, and writes less than \$2 mil. in direct business or covers less than 2,000 lives. The word "and" after paragraph (2) was inadvertently deleted in the S.D. 1. The Department respectfully requests adding the word "and" on page 16, line 21, such that it reads:

(2) Assumes no reinsurance in excess of five per cent of direct premiums written; and

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

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

March 30, 2011

The Honorable David Y. Ige, Chair
The Honorable Michelle Kidani, Vice Chair

Senate Committee on Ways and Means

Re: HB 1045 HD1, SD1 – Relating to Insurance

Dear Chair Ige, Vice Chair Kidani and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 1045 HD1, SD1 which would update the Insurance Code to adopt model laws and regulations for risk based capital (RBC) for health plans operating in the state. HMSA supports the proposed changes in the sections which apply to health plans; we take no position on the sections of the measure which apply to different types of insurers.

RBC is a method of establishing the minimum amount of capital appropriate for a health plan to support its overall business operations, in consideration of its size, structure, and risk profile. The changes being proposed for the RBC provisions of the Insurance Code for mutual benefit societies and health maintenance organizations would appear to strengthen the current language. We believe this will promote the public interest by ensuring the financial solvency of health plans in the state.

We appreciate the Insurance Commissioner's proposed changes and respectfully urge the Committee to pass this measure today. Thank you for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read 'JD' followed by a flourish.

Jennifer Diesman
Vice President
Government Relations