

HB 1045, HD 1

Measure Title: RELATING TO INSURANCE.

Report Title: Insurance; Risk-Based Capital.

Description: Updates the Insurance Code and related provisions to adopt the revisions to the National Association of Insurance Commissioners model laws and regulations for risk-based capital trend test for property and casualty insurers which is required for National Association of Insurance Commissioners accreditation. Effective July 1, 2011. (HB1045 HD1)

Companion: SB1272

Package: Gov

Current Referral: CPN, WAM



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TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Friday, March 18, 2011
10:15 a.m.

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

TO THE HONORABLE ROSALYN BAKER, 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 a requested technical amendment.

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 H.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 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.

In section 4 on page 10, line 2, there should be a semi-colon added before the word "or", such that line 2 reads:

"be eliminated within the ninety-day period[-]; or"

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