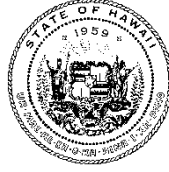


DAVID Y. IGE
GOVERNOR



RODERICK K. BECKER
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

TESTIMONY OF
RODERICK K. BECKER, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE ON FINANCE
ON
FRIDAY, MARCH 31, 2017
2:00 P.M.
CONFERENCE ROOM 308

S.B. 885, S.D. 2, H.D. 1

RELATING TO STATE RISK MANAGEMENT AND INSURANCE ADMINISTRATION.

Chair Luke, Vice Chair Cullen, and members of the Committee, thank you for the opportunity to provide testimony on S.B. 885, S.D. 2, H.D. 1. The Department of Accounting and General Services strongly supports the measure.

The measure allows the Comptroller to have the option to acquire insurance brokerage services on a fixed fee for services compensation model through an amendment of §41D-2(a), Hawaii Revised Statutes (HRS) that includes exemptions from several sections of chapter 431, HRS (State Insurance Code), which were worked out with the Department of Commerce and Consumer Affairs.

Currently, the Comptroller can only acquire insurance brokerage services by commission, negotiated between the insurance company and the State's insurance broker. This measure will provide the Comptroller with options on the compensation model used (fixed fee or commission

basis) when procuring insurance brokerage services. A major benefit of the measure will be to give the Comptroller flexibility in choosing a compensation model that is the most cost effective under the then prevailing economic environment, which may provide overall cost savings.

In the past five years, insurance commissions paid to brokers have ranged between \$1.4 million and \$2.1 million or between 15% and 17% of the premiums paid. In some years, commissions have increased 100% (renewals after Hurricanes Katrina and Rita) due to increased premiums, with no commensurate increase in the service provided. In these cases, a fixed fee for service compensation model would have benefited the State since the insurance broker's commission would not have been based on the premium amount. Conversely, in an environment of rapidly declining premiums, the commission model may be a better option for the State since commissions would be based on lower premium costs.

Thank you for the opportunity to testify on this measure.



DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
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JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-NINTH LEGISLATURE
Regular Session of 2017

Friday, March 31, 2017
2:00 p.m.

TESTIMONY ON SENATE BILL NO. 885, S.D. 2, H.D. 1 – RELATING TO THE STATE RISK MANAGEMENT AND INSURANCE ADMINISTRATION.

TO THE HONORABLE SYLVIA LUKE, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department understands the intent of S.B. No. 885, S.D. 2, H.D. 1, and offers the following comments.

The intent and proposed amending language in this bill permits a broker to accept a flat fee from the State in lieu of a commission from an insurer upon the sale of a policy to the State. The amending language will exempt certain applicable insurance statutes governing the broker’s license which will, in turn, assist the State in its procurement of insurance coverage.

We thank the Committee for the opportunity to present testimony on this matter.