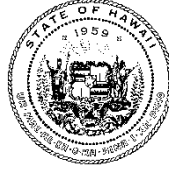


DAVID Y. IGE  
GOVERNOR



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

WRITTEN COMMENTS OF  
RODERICK K. BECKER, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
SENATE COMMITTEE ON WAYS AND MEANS  
ON  
THURSDAY, FEBRUARY 23, 2017  
1:30 P.M.  
CONFERENCE ROOM 211

S.B. 885, S.D. 1

RELATING TO STATE RISK MANAGEMENT AND INSURANCE ADMINISTRATION.

Chair Tokuda, Vice Chair Dela Cruz, and members of the Committee, thank you for the opportunity to submit written comments on S.B. 885, S.D. 1.

The Department of Accounting and General Services (DAGS) strongly supports the measure and offers an amendment that has been worked out with the Department of Commerce and Consumer Affairs (DCCA).

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), which will include an exemption from chapter 431, (HRS) (State Insurance Code). 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.

DAGS has been working with the DCCA to address concerns they had on this measure, and have reached agreement with them on amended language that addresses their concerns. We request that the amendment of section 41D-2 (6), HRS, as provided in the measure, be replaced in its entirety with the following language:

“(6) Acquire risk management, investigative, claims adjustment, actuarial, and other services, except attorney's services, as may be required for the sound administration of this chapter [;], provided that a broker submitting a proposal in response to a fixed fee solicitation by the Comptroller pursuant to this subsection (a) and the broker's performance of the activities in accordance with the proposal shall not constitute a violation of sections 431:10-218, 431:13-101, and 431:13-103;”

Thank you for the opportunity to provide comments on this measure.



**WRITTEN TESTIMONY OF  
THE DEPARTMENT OF THE ATTORNEY GENERAL  
TWENTY-NINTH LEGISLATURE, 2017**

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**ON THE FOLLOWING MEASURE:**

S.B. NO. 885, S.D. 1, RELATING TO THE STATE RISK MANAGEMENT AND INSURANCE ADMINISTRATION.

**BEFORE THE:**

SENATE COMMITTEE ON WAYS AND MEANS

**DATE:** Thursday, February 23, 2017      **TIME:** 1:30 p.m.

**LOCATION:** State Capitol, Room 211

**TESTIFIER(S):**      **WRITTEN TESTIMONY ONLY.**  
(For more information, contact Daniel K. Jacob,  
Deputy Attorney General, at 586-1180)

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Chair Tokuda and Members of the Committee:

The Department of the Attorney General provides the following comment:

The purpose of this bill is to permit the Comptroller to acquire risk management, investigative, claims adjustment, actuarial, and other services on a fee for services compensation method by exempting licensed individuals and entities from applicable regulations found within the Insurance Code.

We believe that the wording on page 2, lines 17 through 20, may unintentionally exempt insurers from insurance regulations generally, rather than exempt a particular transaction between an insurer and the Comptroller. In other words, this bill appears to allow an insurer that contracts with the Comptroller to then commit unfair and deceptive acts upon the general public. In order to address this issue, we suggest that the bill be amended either as recommend by the Department of Accounting and General Services or by the Insurance Commissioner in their respective testimonies.

Thank you for the opportunity to provide comments.



DAVID Y. IGE  
GOVERNOR  
SHAN S. TSUTSUI  
LT. GOVERNOR

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CATHERINE P. AWAKUNI COLÓN  
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE ON  
WAYS AND MEANS

TWENTY-NINTH LEGISLATURE  
Regular Session of 2017

Thursday, February 23, 2017  
1:30 p.m.

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

TO THE HONORABLE JILL N. TOKUDA, 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 the bill, which is a companion to H.B. 1019. The Department prefers the H.D. 1 version of H.B. 1019 over this bill and submits the following comment.

The Department understands that the proposed exclusionary language is to assist the State in its procurement of insurance coverage. The intent and proposed amending language only 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.

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