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TO THE HOUSE COMMITTEE ON  
CONSUMER PROTECTION AND COMMERCE

TWENTY-NINTH LEGISLATURE  
Regular Session of 2017

Friday, March 17, 2017  
2:00 p.m.

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

TO THE HONORABLE ROY M. TAKUMI, 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 and which this Committee heard and passed out as an H.D. 1 but did not cross over. The Department prefers the H.D. 1 version of H.B. 1019 over this bill and submits the following comments.

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

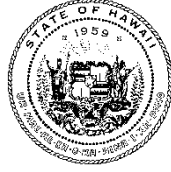
The reason that the H. B. 1019 H.D.1 is preferable is that only the broker, in performance of the duties prescribed in the contract with the State, will be exempt from the certain applicable insurance statutes governing the broker’s license. The intent and proposed amending language in the H.D.1 permits 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.

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S.B.885 S.D.2 proposes to exempt insurers from governing statutes if they have a contract with the State. This means that insurers, by them having contracts with the State, may have their entire books of business exempt from applicable regulatory enforcement statutes. The proposed language found on page 2, lines 19 and 20, proposes to exempt insurers from certain insurance regulatory requirements including unfair methods of competition and unfair and deceptive acts and practices. The Department believes that this is not the intent of this measure.

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

DAVID Y. IGE  
GOVERNOR



RODERICK K. BECKER  
Comptroller

AUDREY HIDANO  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**

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TESTIMONY OF  
RODERICK K. BECKER, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE  
ON  
FRIDAY, MARCH 17, 2017  
2:00 P.M.  
CONFERENCE ROOM 329

S.B. 885, S.D. 2

RELATING TO THE STATE RISK MANAGEMENT AND INSURANCE  
ADMINISTRATION

Chair Takumi, Vice Chair Ichiyama, and members of the Committee, thank you for the opportunity to submit testimony on S.B. 885, S.D. 2.

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 submit testimony on this measure.