



DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
www.hawaii.gov/dcca

CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE SENATE COMMITTEES ON GOVERNMENT OPERATIONS
AND
COMMERCE, CONSUMER PROTECTION, AND HEALTH

TWENTY-NINTH LEGISLATURE
Regular Session of 2017

Friday, February 10, 2017
9:35 a.m.

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

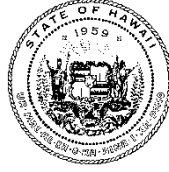
TO THE HONORABLE DONNA MERCADO KIM AND THE HONORABLE ROSALYN
H. BAKER, CHAIRS, AND MEMBERS OF THE COMMITTEE:

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 submits the following comment regarding proposed amending language from the Department of Accounting and General Services.

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.

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
SENATE COMMITTEES
ON
GOVERNMENT OPERATIONS
AND
COMMERCE, CONSUMER PROTECTION AND HEALTH
ON
FRIDAY, FEBRUARY 10, 2017
9:35 A.M.
CONFERENCE ROOM 229

S.B. 885

RELATING TO STATE RISK MANAGEMENT AND INSURANCE ADMINISTRATION

Chairs Kim and Baker, Vice Chairs Ruderman and Nishihara, and members of the Committees, thank you for the opportunity to testify before you on S.B.885.

The Department of Accounting and General Services (DAGS) supports the measure and proposes an amendment.

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 Department of Commerce and Consumer Affairs 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 testify on this measure.