



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

TESTIMONY OF THE CONNECTICUT INSURANCE DEPARTMENT
to the
GOVERNMENT ADMINISTRATION AND ELECTIONS COMMITTEE
FEBRUARY 21, 2007

SB41 – AAC CLEAN CONTRACTING STANDARDS

The Insurance Department appreciates the opportunity to comment on **Senate Bill 41 – An Act Concerning Clean Contracting Standards**. SB 41 proposes the structural and organizational aspects of the State Contracting Board, its rights, duties and authorities, and its development of a uniform contracting code to be in place by 2009. The Department supports an open and objective contracting process and our intent in supplying this testimony is to assist the Committee in formulating an ethical and transparent process that supports our statutory responsibility to regulate the insurance industry.

By statute, the Insurance Department has an obligation to conduct periodic financial, market conduct and other business examinations of the entities we regulate to ensure that they are financially solvent and are operating in accordance with state law. In addition, we have a statutory charge to fully review and examine any applications for changes of control of domestic insurance companies. These processes frequently require us to contract with consulting resources that have a specialized subject matter expertise to assist the Department in fulfilling its statutory duties.

These consultants are selected by the Department following an open bid process. By statute,¹ the company being examined, or seeking the change of control, pays the cost of the consultants. These contracts for consulting services are entered into by the Department, the company being examined and the consultant. For this reason, they are commonly referred to as “three-party contracts.” The Department works closely with the selected consultant to ensure that it is performing the contracted services in a manner that assists in the fulfillment of the Department’s statutory obligation. The Department is only a party to the contract to retain control over the consultants to ensure they are upholding the Department’s statutory obligations.

There are two critical distinctions between three-party contracts and most other state contracting arrangements. First, there is no cost to the state because the cost of the service is statutorily required to be paid for by the examined company. Second, the Insurance Department does not process the payments for services. Payment for these services is made directly to the consultant by the company. The Department is only a party to the contract to retain control over the contractors to ensure they are upholding the Department’s statutory obligation.

¹ See Conn. Gen. Stat. §§38a-14 and 38a-132

The Department respectfully requests that the Legislature recognize the importance of three-party contracts to the fulfillment of the agency's statutory obligations by developing a procurement code that allows us to continue using three-party contracts.

The Department's second area of contracting is unique. On rare occasions when a Connecticut domiciled insurance company is found to be financially impaired or insolvent, the insurance company is placed into receivership by order of the Superior Court. When this occurs, the Insurance Commissioner is appointed by the Court to act as rehabilitator or liquidator of the company pursuant to Chapter 704c of the Connecticut General Statutes. If the rehabilitation is not successful, the Receiver can petition the Court to liquidate the company. The Receiver will be appointed by the Court to serve as the liquidator and will be authorized to close the company. The Receiver is authorized by statute² and court order to hire personnel to assist in the liquidation process. All costs for personnel are paid for by the estate of the insurance company. As with three-party contracts, no state funds are used in this process.

While we fully understand and support the need to implement contracting procedures that protect the public interest and trust, the Department believes it is necessary for any procurement code to clearly state that receiverships, which are under the supervision of the Superior Court, are exempt from any contracting rules to be applied to state agencies. Absent such a provision, a procurement code could undermine efforts for the successful rehabilitation of insurance companies in Connecticut and impair the proper discharge of the Commissioner's fiduciary duties as Court-appointed Receiver.

We look forward to participating in this process and would be happy to assist the committee as the procurement code is developed.

² See Conn. Gen. Stat. §§ 38a-916 and 38a-923