TESTIMONY

OF

JOSEPH L. GROCHMAL
PRESIDENT & CEO

OF

GOODWORKS INSURANCE, LLC

BEFORE THE
PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
ON RAISED BILL NO. 5347

MARCH 1, 2010

Co-Chairman Kissel and Mushinsky, Members of the Program Review and Investigations Committee. My name is Joseph Grochmal. **THE PURPOSE OF MY TESTIMONY TODAY IS TO EXPRESS MY STRONG OPPOSITION TO SECTION 5 OF RAISED BILL 5347**, which section retroactively eliminates legislation known as the "Connecticut Insurance Reinvestment Act".

I speak to you today with significant experience in these matters. I brought the original idea for this law to then President of the Senate John Larson in 1993. Since that time I have been involved in forming two venture capital funds under the law and presently operate GoodWorks Insurance, which received its initial funding under the legislation.

The primary reasons for my opposition to this proposal are that it will result in the following series of very unfortunate events.

1. **PASSAGE OF SECTION 5 DESTROYS CONNECTICUT'S CREDIBILITY AS A RELIABLE BUSINESS PARTNER.**

   Who would ever trust Connecticut business development legislation again? The answer I fear is "no one!" Companies, entrepreneurs and employees have developed business plans and committed lives and careers to Connecticut because of the existence of Section 38a-88a and a faith in the reliability of commitments made by Connecticut. Yet, this proposal would not only shut off this important capital resource, retrospectively (as of 1/1/2010), but would also eliminate the Insurance Reinvestment Act retroactively and would be devastating not only to companies with offices and employees already funded under the law but to companies, already approved by DECD as qualified and out at various stages in the financial markets raising money at this time.

   Whether you are an individual or an institution, your most basic stock in trade is your reputation. By retaining the misguided proposal made in Section 5 of Raised Bill 5347, Connecticut will effectively prove that it is willing to renege on its commitments and lose its reputation as a trustworthy partner and news of this will spread rapidly. This is a stake in the heart of our State's ability to rebound from the tough economic times in which we all find ourselves today.

2. **PASSAGE OF SECTION 5 ENDS CONNECTICUT'S FUTURE AS A LEADER IN THE INSURANCE INDUSTRY.**

   Long ago, the Connecticut Insurance Industry was formed by entrepreneurs with big ideas and the State became well-known as the Insurance Capital of the World.

   More recently, these insurance giants lost market share to newer companies located in other states. These industry leaders forgot that investment in the future was a prerequisite for Connecticut's Insurance industry to have a future. They became comfortable with the status quo.

   Connecticut acted to stop this trend in its 1994 session by unanimously passing legislation designed to attract insurance entrepreneurs and risk-takers (not those resident in ivory

towers, comfortable and satisfied with the status quo) to bring cutting-edge, insurance-related companies to Connecticut.

The only way the insurance industry can be invigorated and grow meaningfully again in Connecticut is through investments in seeds that have the potential to grow into the next GEICO, AFLAC, Progressive or the Aetna and Travelers of the late 1950's. Capital support for these enterprises is the key. Passage of this proposal, however, would cost Connecticut a vibrant, longer-term future in insurance and there are no other meaningful tools available or proposed.

3. DECD'S PUBLIC POSITION WORKS AGAINST GREATER SUCCESS.

PASSAGE OF SECTION 5 BASED ON CORRUPT STATISTICAL INFORMATION PROVIDED BY DECD WOULD RESULT IN A MISGUIDED DECISION.

Almost since its passage, DECD has actively taken steps to discredit the law and misrepresent its results. From what I've seen, DECD has consistently poisoned the well through publicly and privately stated opposition to this legislation (including a public notice defaming the law which was on DECD's web site until late 2008). DECD's annual attack on the legislation has only reinforced this mixed message. In the case of GoodWorks Insurance, members of DECD were even quoted in a national insurance publication read by entrepreneurs throughout the insurance industry, throughout the United States as hating this law. If you were an entrepreneur prepared to invest your life and your money in such an opportunity and you saw that position, where would you go?

During 2009, this became even more apparent to me when representatives of DECD indicated to me, in the presence of the CEO of a company seeking to relocate to Connecticut that they would not count new jobs created in Connecticut by companies approved and funded under this statute if those jobs were resident in a wholly-owned subsidiary. Of course I were surprised by this position and asked them directly, "does that mean if a company was approved and it had 1 Connecticut-based job at its holding company and 1,000 new Connecticut-based jobs in a subsidiary company that you would only count the 1 job under the law and only report the 1 job to the legislature?" The answer was yes; DECD would ignore and not report the other 1,000 jobs. I ask you, is that intellectually honest? Does it give you confidence that the quality of the data captured by DECD and utilized by your staff to put together their recommendations as embodied in Section 5347 is reliable and adequate for you to make such important decisions? Maybe, you feel like I do that the quality of the information drives the quality of the decision. In this case, the quality of the data is highly questionable.

Having had many interactions with the leadership of DECD as respects this law you could ask me why our State's economic development arm has worked so hard to poison the well and misrepresent the results, with a resultant loss of jobs and opportunities for Connecticut, I would tell you that it is about turf and power. DECD seems to believe that they should control the decisions about what makes for attractive economic opportunities within the insurance industry for the State of Connecticut. My opinion is that this

unanimously approved legislation properly put the authority to decide which insurance investments are appropriate in the hands of professionals in the private sector who have spent careers understanding the nuances of this complicated and rapidly changing industry. Because of the specialty nature of insurance industry investing, the original legislation had the Division of Insurance acting as the principal regulator not DECD. The State needs to get DECD to set ego aside and refocus its efforts on regulating Section 38a-88a as it was intended, as it exists today for the benefit of the greater good in Connecticut. Just once, I wish someone from DECD had the foresight to ask me or others closely associated with this law, "what else can we do together to improve on what we are doing with this legislation today?" That question has never been asked by DECD of me or, to my knowledge, anyone else engaged in trying to make this legislation successful for Connecticut. I only wish someone in DECD would take the lead and ask that question with genuine intent.

Section 38a-88a continues to provide a great opportunity for Connecticut to bring this legislation and its regulation back on track and provides a wonderful opportunity to recommit to consistent support for a bright future for the insurance industry.

4. PASSAGE OF SECTION 5 OF BILL 5347 WILL LEAD TO THE FAILURE OR RELOCATION OF GOODWORKS INSURANCE TO ANOTHER STATE AND CLOSURE OF OUR CONNECTICUT OFFICES.

As mentioned earlier, I am the President and CEO of GoodWorks Insurance, an approved entity under the legislation this Bill proposes to retroactively eliminate.

GoodWorks is in the process of revolutionizing the delivery of insurance products through its patent pending, contractual connection to community building. Among other things, the GoodWorks Charitable Contract defines an annual commitment to donate 50% of our operating profits to local charities that support education, healthcare and public safety.

We are also about to come out with a new product that make donations of $50-150 per policy to charities of choice of our policyholders. This marketing approach is the subject of a patent pending and we believe it has the potential to cause a paradigm shift in how people across the United State look at the unattractive process by which they buy insurance. It is also our expectation that this innovative marketing method will result in the birth of other insurance-related companies such as a new socially responsible primary insurance provider, a new reinsurer, a large national broker and a franchising company that provides access to this business model and related services to existing agencies. Based on our projections, we believe that the revolutionary ideas inherent in GoodWorks, and the associated methods and business opportunities, will generate charitable donations in excess of $100 million over the next seven years ($20 million in Connecticut alone) and that value would be lost to Connecticut if the recommendations in Section 5 of Raised Bill 5347 are passed.

In fact, as we are building GoodWorks, we are in the process of acquiring existing agencies to broaden our service platform to handle growth with this new business. We

currently have made offers to acquire four insurance agencies. The funding for every one of these transactions is based on our collateral pledge to the lender of proceeds from the tax savings created in the future to lenders.

This proposal shatters our potential investors' lenders' confidence in Connecticut as a reliable, business friendly state and casts a significant cloud over the future of our company in Connecticut. Without the continued support of Connecticut for this legislation, it is my opinion that GoodWorks will wither and die.

It is very troubling to me that a tool that does so much good for communities and provides a novel solution to an age-old insurance industry PR problem could be torpedoed by a legislative proposal and "research" from an entity, DECD, whose stated missions are economic and community development.

Thank you for the opportunity to testify and offer my strong opposition to Section 5 of Bill 5347.