



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of Thomas Leonardi, Commissioner Connecticut Insurance Department

Before the Regulation and Protection Subcommittee of the Appropriations Committee

Thursday, February 16, 2012

Senator Bye and Representative Reynolds and Members of the Regulation and Protection Subcommittee, I am Thomas Leonardi, Commissioner of the Connecticut Insurance Department and I appreciate this opportunity to discuss the governor's mid-term budget adjustments.

Connecticut is the insurance capital of the United States, a position that I fully expect will become even stronger under the Malloy Administration given the Governor's commitment to reinvigorating this economic sector. As it stands now, we regulate one of the largest and most complex insurance markets in the nation with one of the more modest professional staffs in the country. We regulate \$156 billion in premium – second highest in the nation – with a staff of 46 professionals in our financial regulation unit. By comparison, New York regulates \$195 billion in premium with nearly 275 positions in its financial regulation divisions.

Many of our companies are global and multi-national in scope and regulating to ensure solvency and stability is becoming increasingly complex. As such, in order to assure a stable, solvent and healthy marketplace, we need to hire the staff that offers sophisticated knowledge and experience to regulate these increasingly complex companies.

Alongside of the growing complexity of our marketplace is the overlay of the Patient Protection and Affordable Care Act (PPACA) which requires colleagues with specialized skill sets to devote a significant amount of time and effort in addition to the routine matters of our Department.

As you are aware, the Governor's budget has recommended the addition of 18 full-time employees (FTEs) for our agency which represents a 12.8 percent increase to our current staff of 141. While on its surface this increase may seem high, let me assure you that all these positions are needed and long overdue.

We are an efficient agency, currently operating at 22 percent below our highest staffing level of 180 nearly 12 years ago and yet our output has grown tremendously. However, at our current level there is the risk of losing our accreditation as a department and that is not a risk we wish take.

Increase Positions for Financial Regulation (7 FTEs)

The Department's exhaustive reviews of company financial health – exams that sometime take months and require tremendous resources in manpower – assure that companies are financially solvent and can pay their claims. However, our Financial Field Unit staff has decreased over 35 percent in the past few years. Additionally, with 34 percent of our workforce eligible to retire in the next two years, we are compelled to develop expertise to ensure continuity in our financial oversight. In other words, we need to build a deeper bench and we need to start now.

The Financial Analysis unit has decreased 38 percent. Due to financial market turmoil, and a new comprehensive holding company analysis, which is part of our legislative package this session, refilling vacant examiner positions is critical at this time. Our financial examiners typically spend three months to a year on-site depending on the size of the company for a full-scope exam. These risk-focused exams require two to three examiners for smaller companies and as many as seven or eight for the largest. While full-scope exams are conducted every three to five years, our examiners are now doing more “target” exams. They are much shorter in duration – usually a week or two. These are exams that are based on a full-scope exam or an analyst's concern and are intended to determine if a company is improving in specific areas.

The addition of staff in our Licensing Unit will reduce our license application backlog significantly. The review of foreign company applications assures quality entrants to Connecticut, helping us to keep our consumer commitment to a robust and competitive marketplace. Our fellow regulators consider Connecticut's global review of these companies to be critical and are visible both nationally and internationally.

Create a Captive Insurance Regulation Division (3 FTEs)

In 2008, the Legislature enacted a new law to allow for the formation of captive insurers, however, no new positions were authorized. As you may recall, that captive law was substantially revised during the October Special Session and Governor Malloy has recognized captives as a growth opportunity. A stand-alone division, with the requisite staff, will assure the captive insurance market that we are finally serious about bringing captives to our state.

Consumer Protection and Oversight (5 FTEs)

Our Consumer Services Licensing Unit has seen a 50 percent reduction in staff. This unit is responsible for the licensing standards of more than 200,000 licensees and we need to ensure that agents are properly licensed and regulated for the benefit of our policyholders.

The Consumer Affairs and Fraud Units are taking on additional responsibilities. Examiners are responding to more complex inquiries related to the passage of the federal health care reform law. Also, potential investigations have increased due to the downturn in the economy. The uptick in fraudulent schemes is occurring, not just here but around

the country, and we need to be adequately staffed to keep our consumers protected from opportunistic charlatans.

The Business Office needs additional staff with new functions related to contracting and grant management. The Insurance Department also handles all of the administrative functions for the Office of the Healthcare Advocate, which has more than tripled, growing from 4 FTEs to 13.

Support Staff Positions (3 FTEs)

With the continued growth in the number of both state and federal laws and regulations along with the growing complexity of insurance products and financial oversight, an additional attorney is needed. Finally, clerical staff is needed to support our staff and ensure smooth operations within the Department.

Conclusion

This request for additional staff reflects Governor Malloy's commitment to promote Connecticut's position as a leader in the insurance industry and enhance protections for the state's insurance consumers. It also reflects the need to ensure our agency's continued accreditation with the National Association of Insurance Commissioners (NAIC). Without this important designation, other states will not rely on our regulatory oversight and multiple restrictions may be imposed on the domestic insurance companies, hindering their business.

I have served as the Insurance Commissioner for one-year and I can assure you that our state's regulatory reputation is unsurpassed in the industry. That regulatory strength has also led to a strong and stable insurance industry, which in 2012 is projected to bring in \$228 million to the state's general fund.

The Insurance Department's budget, which as you know is funded through assessments on the industry, and not through the General Fund, is projected to be \$25.7 million in 2013. In the past year we recovered \$3.1 million in fines in our Market Conduct unit, \$4.1 million recovered on behalf of consumers; and an additional \$3.1 million assessed in fines and penalties.

Your support of Governor Malloy's recommendations for the Connecticut Insurance Department is greatly appreciated and will go a long way to ensure our state's ongoing commitment to consumer protection and strong financial oversight of our state's insurance industry.

Thank you for your time and attention and I'd be happy to answer any questions you may have.