



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department

Before The Program Review and Investigations Committee

September 25th, 2012

Assessment Methodology and Process to Fund the Connecticut Insurance Department and the Office of the Healthcare Advocate

Senator Fonfara and Representative Rowe, and Members of the Committee, the Insurance Department appreciates the opportunity to present information about the assessment methodology used to fund both the Connecticut Insurance Department and the Office of the Healthcare Advocate and discuss our concerns with changing that methodology.

I am Debra Korta, Legislative Program Manager for the Connecticut Insurance Department and with me today is Peter Zelez, who recently served as the Department's Chief Fiscal Officer but has taken a new position with another agency. He has graciously given his time today to answer any questions that may arise regarding the specifics of the assessment methodology. Jon Arsenault, Chief Counsel for the Insurance Department is also here to answer any legal questions.

Background

Let me start by providing some background information. Since 1980, domestic insurance companies have been subject to a general assessment to cover the expenditures of the Insurance Department. These assessments were initially deposited into the General Fund until 1991, when legislation established the Insurance Fund and made the Insurance Department an off-budget agency.

For Fiscal Year 2011-2012, the total Insurance Fund assessment was \$26.6 million and was paid by appropriately 100 domestic insurance companies. Just about every state has a law, retaliatory in nature, that attempts to equalize the total tax burden imposed on foreign insurance companies and on domestic companies of the retaliating state. If a state taxes or imposes fees upon out-of-state insurers in excess of what the retaliating states have set up for their domestic insurance companies, they will impose a tax or fee to the same degree to equalize the tax burden imposed on their insurers. See for example, Conn. Gen. Stat. § 21-211.*

* **Sec. 12-211. Reciprocity.** (a) When by the laws of any other state or foreign country any premium or income or other taxes or any fees, fines, penalties, licenses, deposit requirements or other obligations, prohibitions or restrictions are imposed upon Connecticut insurance companies doing business in such other state or foreign country, or upon the authorized agents thereof, which are in excess of such taxes, fees, fines, penalties, licenses, deposit requirements or other obligations, prohibitions or restrictions directly imposed upon insurance companies, or upon the authorized agents thereof, of such other state or foreign country doing business in Connecticut, as long as such laws continue in force the same obligations, prohibitions and restrictions of whatever kind, computed by the Commissioner of Revenue

The assessment practices and methodologies for funding the administration and operating expenses of insurance departments vary considerably by state. According to the National Association of Insurance Commissioners, all but 12 U.S. jurisdictions fund the operations of state insurance departments entirely via fees, assessments and other means, as opposed to utilizing general funds. However, only 24 jurisdictions (including Connecticut) rely 100% upon fees and assessments as a funding source for the operations of state insurance departments. It appears that of these states, only a few limit the assessment to domestic companies.

Connecticut's insurance industry is strong and competitive under the current assessment methodology and we urge caution in making changes that while, well intentioned, may negatively impact the entire domestic insurance industry.

As you may be aware, there have been legislative initiatives introduced which would change Connecticut's insurer assessment mechanism that is used to fund the Insurance Department and the Office of the Healthcare Advocate. Currently, state law requires that the Department assess domestic insurers only. Initiatives previously considered would change that assessment to include both to both domestic and foreign insurers (those companies domiciled out of state but who are licensed to write insurance business in CT of which there are approximately 1000). The intent behind previous proposals would be to benefit small, single state companies operating in Connecticut only; however, overall it would be very business unfriendly to our insurance industry as a whole and could create an incentive for companies to look to other states of domicile.

The Department urges caution in changing the current assessment methodology for the following reasons:

- Any change will negatively impact our domestic insurance industry which will experience higher costs due to retaliatory tax implications. Essentially, domestic

Services on an aggregate state-wide or foreign-country-wide basis, shall be imposed upon insurance companies and authorized agents thereof of such other state or foreign country doing business in Connecticut.

(b) Any tax obligation imposed by any city, county or other political subdivision of a state or foreign country on Connecticut insurance companies shall be deemed to be imposed by such state or foreign country within the meaning of this section. For the purposes of this section, the domicile of a foreign insurer shall be that state designated by the insurer in writing filed with said commissioner at the time of admission to this state or within six months after July 1, 1973, whichever date is later, and may be any one of the following states: (1) That in which the insurer was first authorized to engage in the insurance business; (2) that in which the principal place of business of such insurer in the United States is located; (3) that in which the largest deposit of trustee assets of the insurer for the protection of its policyholders and creditors in the United States is held. Any designation so made hereunder shall be irrevocable and, if the insurer makes no such designation at or within the time provided herein, its domicile shall irrevocably be deemed to be that state in which the insurer was first authorized to engage in the insurance business in the United States. The domicile of an insurer formed under the laws of Canada or a province thereof shall be deemed to be that province in which its head office is situated.

(c) The provisions of this section shall not apply to ad valorem taxes on real or personal property, personal income taxes, fees for agents' licenses, special purpose assessments imposed in connection with particular kinds of insurance including, but not limited to, workers' compensation assessments and Insurance Guaranty Association Fund assessments, or to premium taxes on special health care plans as defined in section 38a-564, except in the case where another state or foreign country imposes upon Connecticut domiciled insurers retaliatory charges for such taxes, fees or assessments.

carriers that conduct business on a national basis, which is the norm in this state, will pay more in the aggregate in other states, than they will benefit here from the reduction of the assessment.

- Any changes could negatively impact out-of-state insurance companies that are licensed to do business in this state by subjecting them to assessments to fund the Insurance Department.
- While it is recognized that there are states that do assess foreign (out-of-state) insurers as well as domestic insurers, most of those states do not have a large domestic insurance industry which makes it feasible in such states to assess all carriers without materially disadvantaging their own domestics doing business in other states.

Thank you for the opportunity to appear before you today and we'd be happy to answer any questions you may have.