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STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony

Insurance and Real Estate Committee

March 7, 2013

Raised Bill No. 1028 —An Act Concerning Insurance Department Examinations of Market Conduct Authority

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department thanks the Committee for raising, S.B. 1028 An Act Concerning Insurance Department Examinations of Market Conduct Authority, at the Department's request and appreciates the opportunity to provide testimony.

This bill amends the current market conduct statute to parallel the financial examination statute with respect to cost of exams, use of consultants paid by the regulated entity, payment for out of state travel by the examined entity and document confidentiality.

Harmonizing the market conduct statute with the financial examination statute allows us to perform market conduct examinations in a consistent manner with the financial examination process. This proposal would provide an explicit statutory confidentiality protection to the examination work papers which contain sensitive trade and commercial information. In addition, this proposal would permit us to charge both foreign and domestic insurance companies for the cost of using specialist consultant resources. Currently the Department can only charge back to foreign companies the cost of using specialist consultants when additional and specific expertise resources are used on an exam.

We understand the state's domestic insurers have raised concerns over the potential cost burden associated with the Department's use of consultants and the ability to pass that cost along to the examined company. We want to assure our domestic insurers that it is not the Department's intent to start outsourcing market conduct examinations or to even use consultants on a regular basis. Our purpose in requesting this authority is to provide the Department with the ability to use consultants when we do not have sufficient expertise in a particular area needing examination. The consultants will serve a dual purpose – to assist us in the examination and to help us transfer the expertise to our staff for future exams. We believe the use of consultants to augment staff when needed for a particular expertise is a reasonable approach to maintaining a lean and cost effective full-time staff. In addition, in this age of multi-state market conduct examinations, the use of consultants is an effective resource management approach. While it is our intention to use this ability to charge back for consultants sparingly, we understand the industry's concerns and are working with the industry to find a reasonable compromise. In that vein, we are suggesting a change to lines 51-54 of the proposed legislation which details the breadth of consultants that could be used and for which expenses could be charged back to the entity undergoing the exam. We are proposing narrowing the types of consultants to those consistent with the Commissioner's authority to engage consultants for financial services as provided in section 38a-8 which authorizes the Commissioner to engage, at a cost to be borne by the regulated entity – domestic or foreign- "attorneys, actuaries, accountants and other experts not otherwise part of the commissioner's staff as may be

necessary to assist the commissioner” in a series of stated activities. We look forward to discussing this approach with the industry and the Committee.

The Department again, thanks the Committee for raising this bill and encourages the Committee’s support of this initiative.