

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 7, 2013

SB 1028, An Act Concerning Insurance Department Examinations Of Market Conduct Activity

The Insurance Association of Connecticut (IAC) has the following concerns with SB 1028, An Act Concerning Insurance Department Examinations Of Market Conduct Activity.

SB 1028 would permit the Insurance Department to hire various “professionals and specialists” outside of the Department to assist the Department in conducting market conduct examinations of insurers.

As written, SB 1028 would entitle the Department to cede any or all work associated with a market conduct examination to outside consultants. There are no limits to the amount of work, or the billed charges for that work, that the insurance company being examined will be responsible to pay for under SB 1028.

Experience in other states shows that market conduct examination costs can grow to extreme levels when the state regulator hires outside consultants. Insurers have found that consultants often charge exorbitant fees, and may engage in activity more geared to justifying their contracts than to conducting a fair examination of an insurer's

market conduct. There is no provision in SB 1028 for review or verification of charges made by outside consultants.

Domestic insurers pay for the operating costs of the Insurance Department through annual assessments to the Insurance Fund (C.G.S. 38a-47). However, there is nothing in SB 1028 that would prevent the Department from contracting any or all work concerning a market conduct examination of a domestic insurer to outside consultants, and charging that insurer for those services. In contrast, currently C.G.S. 38a-15(d) provides that a domestic insurer will not be charged for a market conduct examination of that insurer conducted by the Department in state (lines 45-50, which are deleted by SB 1028).

IAC believes that SB 1028 creates the potential for insurers doing business in this state being required to pay for unnecessary and excessive costs incurred by outside consultants hired by the Insurance Department to conduct market conduct examinations.

IAC does support section 1 (g), which clarifies that all documents, working papers and information produced in a market conduct examination will be treated as confidential by the Department.