

Legislative History for Connecticut Act

Act Number: 182	2003
Bill Number: 5480	
Senate Pages: 3616-3617, 3740-3742	5
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Committee: Insurance: 915-917, 923, 925, 928-930, 1012, 1013, 1079-1080	12

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Transcripts from the Joint Standing Committee Public Hearing(s) and/or Senate
and House of Representatives Proceedings

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S-486

CONNECTICUT
GEN. ASSEMBLY
SENATE

PROCEEDINGS
2003

VOL. 46
PART 12
3561-3835

THE CHAIR:

The question is on passage of the bill as amended.
Will you remark further? Senator Fonfara.

SEN. FONFARA:

Thank you, Madam President. Unless there's
objection, I would move this bill to the Consent
Calendar.

THE CHAIR:

Without objection, so ordered.

THE CLERK:

Calendar Page 7, Calendar 523, Files 178 and 783,
Substitute for H.B. 5480 An Act Concerning The
Connecticut Insurance Guarantee Association, as amended
by House Amendment Schedule "A". Favorable Report of
the Committees on Insurance and Banks.

THE CHAIR:

Senator Crisco.

SEN. CRISCO:

Thank you very much, Madam President. Madam
President, I move for acceptance of the Joint
Committee's Favorable Report and passage of the bill in
concurrence with the House.

THE CHAIR:

The question is on passage in concurrence. Will
you remark?

SEN. CRISCO:

Thank you, Madam President. Madam President, this takes care of an issue of a bill that was lost in the Committee process. And what it does, it alleviates the municipalities from liability from the association.

THE CHAIR:

The question is on passage in concurrence with the House. Will you remark further? Senator Crisco.

SEN. CRISCO:

Madam President, if there's no objection, I'd ask that it be placed on the Consent Calendar.

THE CHAIR:

Without objection, so ordered.

THE CLERK:

Calendar Page 9, Calendar 535, File 527, H.B. 5145
An Act Increasing The Fine For Installing Or Using
Muffler Systems That Cause Excessive Noise. Favorable
Report of the Committee on Transportation and Judiciary.

THE CHAIR:

Senator Ciotto.

SEN. CIOTTO:

Thank you very much, Madam President. I move the Joint Committee's Favorable Report and passage of the bill.

THE CHAIR:

items.

THE CLERK:

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

Madam President, the First Consent Calendar begins on Calendar Page 3, Calendar 451, Substitute for H.B. 5594.

Calendar Page 5, Calendar 505, Substitute for H.B. 5178.

Calendar Page 7, Calendar 523, Substitute for H.B. 5480.

Calendar 525, Substitute for H.B. 6470.

Calendar 527, H.B. 6432.

Calendar 528, H.B. 6570.

Calendar Page 8, Calendar 534, Substitute for H.B. 5930.

Calendar Page 9, Calendar 535, H.B. 5145.

Calendar 536, H.B. 6394.

Calendar 537, H.B. 5034.

Calendar 538, H.B. 6036.

Calendar 539, Substitute for H.B. 6446.

Calendar Page 14, Calendar 135, Substitute for S.B.
934.

Calendar Page 15, Calendar 262, Substitute for S.B.
1011.

Calendar Page 16, Calendar 291, Substitute for H.B.
5515.

Calendar 330, Substitute for S.B. 409.

Calendar Page 17, Calendar 458, Substitute for H.B.
5059.

Calendar Page 18, Calendar 144, Substitute for S.B.
985.

Calendar 151, Substitute for S.B. 1111.

Calendar Page 19, Calendar 270, Substitute for S.B.
1024.

Calendar Page 20, Calendar 359, Substitute for S.B.
904.

Calendar 365, Substitute for S.B. 1066.

Calendar 452, H.B. 6298.

Madam President, I believe that completes those
items previously placed on the First Consent Calendar.

THE CHAIR:

Thank you, Sir. Would you once again announce a
roll call vote on the Consent Calendar. The machine will
be opened.

THE CHAIR:

pat

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Senate

Monday, June 2, 2003

The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber.

The Senate is now voting by roll call on the Consent Calendar. Will all Senators please return to the Chamber.

THE CHAIR:

Have all members voted? If all members have voted, the machine will be locked. The Clerk please announce the tally.

THE CLERK:

Motion is on adoption of Consent Calendar No. 1.
Total number voting, 35. Necessary for adoption, 18. Those voting yea, 35; those voting nay, 0. Those absent and not voting, 1.

THE CHAIR:

The Consent Calendar is adopted.

Senator Looney.

SEN. LOONEY:

Yes, thank you, Madam President. Madam President, I would move for immediate transmittal to the House of Representatives of all items acted upon today requiring additional action by that Chamber.

THE CHAIR:

Without objection, so ordered.

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GEN. ASSEMBLY
HOUSE

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3793-4130

House of Representatives

Tuesday, May 27, 2003

assembly I have a very important guest here this afternoon. This is Miss Connecticut, she is up there in front of the dais and if she could walk up so everyone can see her, Alesia Williams from Bloomfield.

REPRESENTATIVES:

Applause.

REP. MCMAHON: (15th)

Alesia recently won the highest award given to the 2002 Miss Connecticut American Princess Scholarship Pageant during their 18th annual state competition. She will be attending the national competition in Florida in Disney World in November to compete for the national title. Thank you very much for your warm welcome.

REPRESENTATIVES:

Applause.

SPEAKER LYONS:

Are there any additional announcements or points of personal privilege? Will the Clerk please call Calendar 141.

CLERK:

State of Connecticut House of Representatives
Calendar for Tuesday, May 27, 2003. On page twenty-three, Calendar 141, substitute for H.B. 5480, AN ACT CONCERNING INSURANCE PRODUCER COMMISSIONS. Favorable report of the Committee on Banks.

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House of Representatives

Tuesday, May 27, 2003

SPEAKER LYONS:

Representative Gary Orefice you have the floor sir.

REP. OREFICE: (37th)

Thank you Madam Speaker. I move acceptance of the Joint Committees favorable report and passage of the bill.

SPEAKER LYONS:

The question before the Chamber is on acceptance and passage, will you remark?

REP. OREFICE: (37th)

Yes madam Speaker the Clerk has LCO 6526 may he call and may I be permitted to summarize?

SPEAKER LYONS:

Will the Clerk please call LCO 6526 and the gentleman has asked leave to summarize, to be designated house "A."

CLERK:

LCO 6526, House "A" offered by Representative Orefice.

SPEAKER LYONS:

Representative Orefice, you have the floor.

REP. OREFICE: (37th)

Thank you Madam Speaker. Madam Speaker this is a strike all amendment on the underlying bill. The amendment represents a bill that was passed unanimously

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out of the Insurance Committee and unfortunately failed to get out of Finance in the appropriate amount of time. The bill will clarify that the municipalities are excluded from those insured that the Connecticut Guarantee Insurance Association has the right to recoup amounts of coverage from paid claims. Madam Speaker, several, many municipalities in the State that have been covered by insurance company - liability insurance companies - that have become insolvent or may become insolvent.

This makes it clear that these guarantee funds will not have the ability to reach back and recoup these Moines from the municipality on the basis that they have a net worth of over \$50 million. Madam Speaker this amendment is supported by CCM and testified in favor of by the Insurance Commissioner. You'll notice that the amendment has my name on it but it has many co-sponsors that have agreed to co-sponsor the bill. Unfortunately when I called the amendment in I didn't have the list available. Madam Speaker I move adoption of the amendment.

SPEAKER LYONS:

The question before the Chamber is on adoption. Will you remark? Will you remark on the legislation that is before us? Representative Sawyer.

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Tuesday, May 27, 2003

REP. SAWYER: (55th)

Thank you Madam Speaker. A question to Representative Orefice please?

SPEAKER LYONS:

Please frame your question madam.

REP. SAWYER: (55th)

Thank you. Looking at its impact on municipalities would you say sir that there would be a difference in how small towns and large towns would be affected by this amendment? Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Thank you, through you. It shouldn't have any impact whether it's a large town or a small town. What it tries to prevent is towns and municipalities that have coverage with an insurance company that becomes insolvent the impact whether it's large claim or small claim would not make any difference to the size of the municipality.

REP. SAWYER: (55th)

Thank you Madam Speaker.

SPEAKER LYONS:

Will you remark further on the legislation that is before us? Representative Stripp.

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REP. STRIPP: (135th)

Thank you Madam Speaker. Madam Speaker through you a question to the proponent of the bill?

SPEAKER LYONS:

Please frame your question sir.

REP. STRIPP: (135th)

As I remember, maybe I'm thinking of the wrong bill, but as I remember it there is a great deal of language about insurance commissions and other types of commissions and when they would be paid, etcetera, etcetera and when they had to be paid. Has all that gone by the boards in the new amendment, which is a strike all amendment? Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Through you Madam Speaker yes. The underlying bill will be reconsidered next year. This is a strike all amendment that essentially doesn't deal with the commission structure.

REP. STRIPP: (135th)

Madam Speaker, I thank the proponent, Madam Speaker I thank you.

SPEAKER LYONS:

Will you remark further? Representative Minnie

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Gonzalez. I think perhaps inadvertently if we could, I know it's no one's fault because other people probably do it, but if we could pay attention to people probably inadvertently touching their buttons. Representative O'Neill.

REP. O'NEILL: (69th)

Thank you Madam Speaker. Through you a question if I may to the proponent of the amendment?

SPEAKER LYONS:

Please frame your question sir.

REP. O'NEILL: (69th)

Yes, thank you. I believe there was an indication that this amendment was in fact or had been a bill that was lost at some point during the course of this session in the Finance Committee. The question that I would have is, was that a bill that actually received a public hearing? Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Thank you Madam Speaker. Yes it did have a public hearing and received testimony, supporting testimony from CCM, the Insurance Department and several municipal officers. It did come out of the Committee with unanimous approval, it went to Finance, I'm not quite

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sure why because it has no fiscal impact, and unfortunately it failed to get out of the Finance Committee by a lack of action by the JF deadline.

REP. O'NEILL: (69th)

Thank you for that. Is there a, unfortunately this amendment - what I'm looking at on my computer screen and I have expressed different programs from others does not show a fiscal note associated with this amendment. So I would ask the proponent if he could perhaps share with us the fiscal note on the amendment. Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Yes Madam Speaker, the amendment has no fiscal note according to the OFA analysis.

SPEAKER LYONS:

Representative O'Neill.

REP. O'NEILL: (69th)

Thank you Madam Speaker, perhaps the proponent could clarify, does that answer mean there is no fiscal note available or the fiscal note indicates that there is no fiscal impact? Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

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REP. OREFICE: (37th)

My apologies for the confusion. It has a fiscal note and there is no significant impact.

SPEAKER LYONS:

Representative O'Neill.

REP. O'NEILL: (69th)

And again through you Madam Speaker. No significant impact on either, does that include no significant impact on municipalities? Through you Madam Speaker?

SPEAKER LYONS:

Representative O'Rourke, I mean Representative Orefice.

REP. OREFICE: (37th)

There is no significant impact on the municipalities. In fact they would avoid impact of trying to defend a case against a guarantee insurance fund if they brought suit.

SPEAKER LYONS:

Representative O'Neill.

REP. O'NEILL: (69th)

Thank you Madam Speaker. Through you Madam Speaker someone has passed me a copy of a fiscal note here. And it indicates that various municipalities would experience cost avoidance, which is potential significance. I just want to verify is that the same

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information that was attached to the fiscal note that the proponent of the amendment has in his possession? Through you Madam Speaker.

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Yes Madam Speaker that's the same fiscal note I have.

SPEAKER LYONS:

Representative O'Neill.

REP. O'NEILL: (69th)

Thank you. Thank you, all right I just want to make sure. Because effect we're dealing with a bill that I don't have a bill number and I can't look it up on the system but did I understand the proponent correctly to say that this bill emerged from the Insurance company unanimously? Through you Madam Speaker?

SPEAKER LYONS:

Representative Orefice.

REP. OREFICE: (37th)

Yes, that's correct it was a unanimous vote out of the Insurance Committee.

SPEAKER LYONS:

Representative O'Neill.

REP. O'NEILL: (69th)

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Thank you Madam Speaker. It certainly, I vaguely remember this piece of legislation as we were looking at it earlier and I certainly understand the impetus for it. I feel like I'm being caught off guard just a little bit by this being coming out in quite this way not having seen the amendment before it was handed out at our desks. And so it sounds like a reasonably good idea and with that, thank you Madam Speaker.

SPEAKER LYONS:

Will your remark? Will you remark further on the amendment that is before us? If not, let me try your minds. All those in favor please signify by saying aye.

REPRESENTATIVES:

Aye.

SPEAKER LYONS:

Those opposed nay. The ayes have it the amendment is adopted. Will you remark further on the bill as amended? Will you remark further on the bill as amended? If not staff and guests come to the well, members take your seats the machine will be open.

CLERK:

The House of Representatives is voting by roll call, members to the Chamber. The House is voting by roll call members to the Chamber please.

SPEAKER LYONS:

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Have all the members voted? The machine is still open. Have all the members voted? Have all members have voted? Will the members please check the board to make sure your vote is accurately recorded. If all the members have voted the machine will be locked and the Clerk will take a tally. Representative Peter Metz in the affirmative. Will the Clerk please announce the tally.

CLERK:

H.B. 5480 as amended by House "A."

Total Number Voting	142
Necessary for Passage	72
Those voting Yea	142
Those voting Nay	0
Those absent and not voting	8

SPEAKER LYONS:

The bill as amended passes. Will the Clerk please call Calendar 168.

CLERK:

On page three, Calendar 168, substitute for H.B. 6470, AN ACT CONCERNING THE SALE OF POISONOUS PLANTS. Favorable report of the Committee on General Law.

SPEAKER LYONS:

Representative John Wayne Fox you have the floor sir.

**JOINT
STANDING
COMMITTEE
HEARINGS**

**INSURANCE
PART 3
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underwriting standards during that period who have a greater likelihood that people will not be renewed for there insurance. Okay?

SUSAN GIACALONE: And that's limited to homeowners, right?

REP. NARDELLO: well again depending on the -- you couldn't answer my question -- I would be able to tell you that if you told me what the underwriting standard is. Another words if you've got an underwriting standard that's once every year then let's take a three-year period. If you have it every two years, let's take two-year periods. I want a comparison in other words, to see if we have a trend where by companies are not renewing their insurance in greater numbers than was the case in the past.

SEN. CRISCO: Thank you Rep. Nardello. No other questions? Thank you very much Susan. Anybody else to testify on this particular bill? If not we will proceed to bill number four, HB5480, Jim Pascarella. Is Jim here?

JIM PASCARELLA: Good morning Mr. Chairmen. My name is James Pascarella, I am president of the Professional Insurance Agents of Connecticut, and I am here this morning to speak in favor of committee HB5480, which our Association feels is the best way to correct a provision that came out of the model - - out of the national model Insurance Licensing Act of last year.

The Act on the federal level does allow each individual state to strike certain provisions or to change certain individual provisions of the bill within reason and this provision and I'm speaking about this morning is one of those items that we can change.

As indicated in our written testimony that we've already submitted the bill in question would allow the payment of insurance commissions from either an insurance carrier or an insurance producer to directly to unlicensed individuals.

Obviously, we are against allowing such a practice. It would in many ways negate a necessity of having an insurance license in some instances. We feel that insurance commissions should only be paid to those that have an insurance license.

It creates a number of individual situations I think that become quite problematic.

There's the potential for situations of professional referrals and controlled sales. Whereby individual attorneys or accountants that may be given individual advice, in terms of their insurance sale, can insist upon or demand a fee for placing the insurance, with an individual insurance agent.

Whereby that person does not have a license at this time and can actually control where that goes, on the basis of, how much money they're being paid, in terms of the commission structure.

It also brings about a more problematic issue concerning something -- tie in sales or with financial products. Whereby a loan officer at a bank would be able to financially benefit directly if an insured or a policyholder were to place their business with the insurance arm of the bank.

Under current -- under the old law this was not allowed. We feel in general that it is a terrible practice to allow insurance commissions to be paid out to someone who does not have -- I guess I'm up, huh. I was pretty close to the end anyways.

I would entertain any questions at this time.

SEN. CRISCO: Thank you Jim, any questions, yes Rep. Megna.

REP. MEGNA: Thank you Mr. Chairman. Agents aren't allowed to share fees, correct? We're talking about this would just be insurance brokerages. Insurance agents are prohibited from sharing fees/

JIM PASCARELLA: We can only share, under the old law,

which was changed when the new omnibus bill was put through on the federal level, which basically required the states to pass it.

We could only exchange fees of other licensed insurance people. You had to have a license. And we feel that is the best way to protect the consumer under --

REP. MEGNA: Yeah, I could understand that. Are most insurance agents also insurance brokers?

JIM PASCARELLA: In Connecticut the distinction between an agent and a broker is a little bit more finite. That's why we use the word producer. Most, such as myself, I won an insurance agency, there are brokers, and they tend to broker excess line insurances policies -- excess insurance policies to agents.

Now obviously, they're licensed, we're licensed and their commission splits there all the time. So in effect, in New York for instance what would the -- our responsibility which would add us as being an agent is also known as being a broker.

For all practical purposes Rep. Megna, it's really synonymous the terms of this bill. I mean an agent versus a broker. You still have to have a license.

REP. MEGNA: Thank you very much.

JIM PASCARELLA: Thank you.

SEN. CRISCO: Thank you sir, any more questions, if not, thank you very much Jim.

JIM PASCARELLA: Any time.

SEN. CRISCO: Any other individuals to testify on this bill? If not we will proceed to bill number five, Bob Kehmna, HB5879

BOB KEHMNA: Thank you, Sen. Crisco, Rep. Orefice and members of the Insurance and Real Estate Committee.

HB5879

For the record, my name is Bob Kehmna, President of

right to require you to buy down to poverty level for purposes of those services.

I assume that was what was going on. And I assume it had nothing whatsoever to do with the product in question.

REP. OREFICE: Rep. Megna.

REP. MEGNA: Thank you Chairman. Bob under the CUIPA statute, that you said applied, does that say it has to be a general business practice?

BOB KEHMNA: No, these are street prohibitions.

REP. MEGNA: Okay, so just one deceptive practice gives them that -- the person the ability to have a cause of action under that.

BOB KEHMNA: There are some other provisions in the CUIPA law that require showing a general business practice. The ones I cited are not so limited.

REP. MEGNA: Alright, thank you very much. Thank you, Chairman.

REP. OREFICE: Any other questions? Thank you very much.

BOB KEHMNA: Thank you.

REP. OREFICE: Next bill we'll do testimony on is SB1085, AN ACT CONCERNING THE PAYMENT OF INSURANCE PRODUCER COMMISSIONS.

Bob Kehmna you could have kept your seat.

BOB KEHMNA: Thank you Rep. Orefice, Sen. Crisco and members of the Committee.

For the record, my name is Bob Kehmna, President of the Insurance Association of Connecticut. I'm here today to oppose SB1085, AN ACT CONCERNING THE PAYMENT OF INSURANCE PRODUCER COMMISSIONS.

As you've heard earlier, testimony on another bill, Connecticut recently passed model producer

HB 5480

idea and found that consumer protection was not being compromised.

Compensation is simply paid in relation to sales resulting from that arrangement rather than a flat fee. That's all we're talking about here.

It would also adversely affect some employment arrangements that some insurers may have. Example, you have a service manager who sits over, who manages some captive agents. Licensed agents that work for the company. Part of that person's compensation would be a small percentage of the commission paid to those captive agents.

This bill would prevent that. Again, the NAICs specifically contemplated that issue, if a person does not need a license because he did not solicit and negotiate, why would he need a license to receive a share of the override commission. What I'm talking about is an override commission.

What consumer protection would be added by requiring a regional manager to have a license in the state solely because that manager received a small percentage of the commissions?

We submit this bill is not about consumer protection, it's contrary to producer licensing laws throughout the country, the model act that this state just recently submitted and approved. We would urge its rejection.

If I may, this bill prohibits both insurers and producers from making those kinds of arrangements with non-licensed people.

The bill you heard just a few minutes ago, I believe the number was HB5480, limits that change to producers. If the Committee is concerned about prohibiting producers from making arrangements with non licensed individuals to share commissions that's the bill to go forth.

This bill takes away our right in the market place and the modern regulation of insurance sales; fees don't impact on how we do our business.

But even from the standpoint of looking at a sales manager, what would be the harm if the sales manager whose involved in the sale of the insurance companies product, in dealing with all of their producers that sell insurance to the consumers, is there really a harm that individual also has to be knowledgeable and licensed in the product line, that their selling and giving advice for, to their producers.

Very often, those same sales managers go out with their producer, their sales force to talk with the consumer as well. So I think there is a benefit -- there certainly is a consumer benefit for the sales manager to have a license and be knowledgeable as well to be prepared to answer questions for the consumer.

We urge your support of this bill.

SEN. CRISCO: Thank you Warren, any questions? Rep. Orefice.

REP. OREFICE: Thank you. I was just noticing that on HB5480, seeks to add language to prohibit the sharing of commissions and SB1085 deletes language that allows it. So we don't need both then, right?

WARREN RUPPAR: I wouldn't think so, no. And I did want to add before the bell rang that we'd be happy to work with proponents of HB5480 to come on with a combined bill here that makes a lot of sense. But then the --

REP. OREFICE: Two different approaches, same result, I think is where we're trying to go. And the -- your testimony was that prior to (inaudible) their heirs or assignees could take those commissions, right?

WARREN RUPPAR: That's correct.

REP. OREFICE: There's and inadvertent -- so we have to do something to --

WARREN RUPPAR: Absolutely.

REP. OREFICE: We're not allowed to make any changes to

the model act, when the model act was being proposed in the Department, had asked us not to do anything that changes it that way. But that's why we're back now today to make those changes.

SEN. CRISCO: Any other questions? Thank you very much. Mr. Pascarella.

JIM PASCARELLA: Thank you again Mr. Chairman, Rep. Orefice. Again, I appear before you. My name is James Pascarella. I'm President of the Professional Insurance Agents of Connecticut.

A few moments ago, I spoke in favor of HB5480 and as Rep. Orefice and Warren had just indicated, SB1085 is essentially the same intent with a different approach.

I'm here to state on the record that the -- although we prefer the language of HB5480, we can certainly live with SB1085 and we look forward to sitting down and writing one bill cause all we essentially do need is one bill.

Just to reiterate what I had said previously, our main concerns was spelled out by Warren is that if the concept of unlicensed people sharing insurance commissioner.

The example given of a sales manager supervising licensed personnel without a license himself is somewhat unusual. I fail to see the logic behind that. I would think if you're going to be a sales manager of insurance producers, it may be a good idea that you have a license yourself.

I don't understand how that works on a functional basis to have your sales staff be more professional, more educated and better at the job than the manger, is a little bit hard to fathom.

So, I think the concern that we have is this would eventually become a manner or a way for an insurance carriers to compensate directly non-licensed individuals to put into effect insurance products.

As Warren had indicated a few moments ago, the Insurance Department is receptive of changing this language. It was part of a huge bill and sometimes when a federal bill comes through hundreds of provisions, there's a provision in there that you don't necessarily can live with but it does allow each individual state to change that provision and that is what we're asking of you this morning.

Thank you and if anyone has any further questions on this, I would be happy to entertain them.

SEN. CRISCO: Thank you sir, any other questions? Thank you, don't go to far, Mr. Kehmna, nobody else to speak on bill no six, we'll proceed to bill number seven. Bob, SB1084.

BOB KEHMNA: Thank you Sen. Crisco, Rep. Orefice and members of the Committee.

Again, for the record my name is Bob Khemna, I'm President of the Insurance Association of Connecticut.

The AIC opposes SB1084, AN ACT CONCERNING AUTOMOBILE LIABILITY INSURANCE WITH REDUCED BENEFITS.

It's a bill that this Committee has seen several times before and each time it has not come out of committee, we would suggest that happen again.

It does create potential hardship problems by creating --

(Gap in testimony, changing tape from 1b to 2A)

BOB KEHMNA: -- that creates a greater likelihood of underinsured situations. Those costs are those costs are shift over to the standard market population.

It also should be pointed out that Connecticut's current financial responsibility limit of 20/40/10 is actually in the bottom third nationally of mandatory coverage requirements.

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Warren C. Ruppap
Executive Vice President

001012

3/13/03

TESTIMONY OF THE INDEPENDENT INSURANCE AGENTS OF CONNECTICUT IN SUPPORT OF SENATE BILL 1085- AN ACT CONCERNING THE PAYMENT OF INSURANCE

HB 5480

Senator Crisco, Representative Orefice and members of the committee, my name is Warren Ruppap and I am the Executive Vice President of the Independent Insurance Agents of Connecticut. I come to you today to speak in favor of Senate Bill 1085- An Act Concerning The Payment of Insurance Producer Commissions.

The Producer Licensing Laws assure that when a Connecticut resident purchases insurance or talks with an individual about their coverage that the individual they are speaking with is a knowledgeable professional that is licensed by the State of Connecticut. The Independent Insurance Agents of Connecticut strongly supports this concept and has worked with the insurance department in developing education programs, testing guidelines for new producers and continuing education for producers. IIAC also believes that those individuals that sell, solicit, or negotiate insurance should maintain their license and be the only individual to receive commissions.

Senate Bill 1085 will accomplish two objectives in licensing that were changed due to the passage of a model licensing law in 2001. Both of these provisions in SB 1085 were part of the previous licensing law for many years. The first change in SB 1085 allows for the renewal or deferred commissions being paid to a person to be paid to an heir or assignee of that person. Many times when a producer retires, that person is owed residual commissions which will be paid over several years. A license is not required for that retired person because they are no longer involved in selling, soliciting or negotiating insurance. SB 1085 proposes that in the event of the death of the retired producer, there will be a provision that any remaining commissions will automatically be paid to the heir or assignee of that person.

The second provision in SB 1085 will clearly assure that only people that sell, solicit, or negotiate insurance may receive commissions or fees. It is definitely in the best interest of consumers that the people receiving compensation in an insurance sale are those people that are licensed to sell the product. The current language from the model act is too permissive and has created a situation where there are unregulated finders fees or referral fees. This language should be changed. The concern that IIAC has is that if this provision remains in the statutes it will give unscrupulous individuals the opportunity to pay people for selling insurance or influencing the sale of insurance without a license. Current state statute also prohibits rebating of premiums in any fashion and IIAC is concerned that the safety and the soundness in the rebating statutes will be undermined as well. SB 1085 returns the producer licensing law to the previous law which

has worked for many years and has proven to be an effective way of regulating the payment of fees and commissions.

IIAC has worked with the Connecticut Insurance Department on this change in the licensing law and we have received the approval from the department to propose the changes included in SB 1085. Further, we recognize that HB 5480 has the same goal of SB 1085 and we will be happy to work with the proponents of HB 5480 to combine these bills.

We urge the committee to support SB 1085 as it returns the producer licensing laws to a proven way of regulating commissions and the sale of insurance to Connecticut consumers.



STATEMENT RE:

Committee Bill No. 5480*"An Act concerning insurance producer commissions."*

TO:

Insurance and Real Estate Committee

BY:

Professional Insurance Agents
of Connecticut

ON:

March 13, 2003

**PROFESSIONAL
INSURANCE
AGENTS**

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The Professional Insurance Agents of Connecticut, Inc. (PIACT), an association representing more than 500 member independent insurance agents who employ over 3,500 people throughout the state, urges the committee to support Committee Bill No. 5480. This bill seeks to ensure that the best interests of insurance consumers of Connecticut are being protected when referred to an insurance sales outlet.

Since September of 2002, when changes made to Connecticut's insurance producer licensing law became effective, producers have been allowed to pay referral fees to unlicensed persons. In the past, the payment of referral fees or sharing of commissions was specifically prohibited by the General Statutes. By lifting this prohibition, the door has been opened for situations whereby insurance sales outlets are paying fees to institutions such as banks in exchange for a steady stream of new clients. Bill No. 5480 would reinstate the prohibition by requiring those who receive referral fees to be a licensed producer for the line of insurance for which the commission or fee was paid. By doing so, this bill will be consistent with the current law's prohibition of practices that violate anti-rebating laws.

There is a significant downside to the type of arrangement currently allowed by law. Suppose, for example, that a bank requires its clients to maintain particular types of insurance coverage in order to obtain a loan. The bank now has the ability to enter into an arrangement with an insurance sales outlet under which the seller will pay a referral fee to the bank for each and every client that is sent its way in need of insurance.

Although this arrangement may appear to be mutually beneficial, the result is a situation where the bank does not necessarily keep the clients' best interests in mind. The clients will be sent to that particular sales outlet, regardless of whether it can provide the kind of coverage that best suits the clients' needs, due to the financial incentive posed to the bank. The lack of a licensure requirement means that the people who receive these fees in a bank may lack the knowledge of insurance necessary to make the most informed referral to the client, demonstrating the fact that it is poor public policy to allow commission sharing with unlicensed persons.

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A further result is a potential bidding war that can affect the integrity of professional referrals of clients by attorneys, accountants, real estate brokers, financial advisors, and others who are in a position to steer clients to an insurance source. Rather than founding such referrals on high professional regard, they will go to the highest bidder. Eventually, the demand for referral fees will undermine the compensation that is supposed to support excellent consumer service by insurance professionals.

Clearly, legislation that pushes for meaningful changes to the law is of paramount importance on PIACT's agenda. Therefore, PIACT strongly supports Bill No. 5480, and we continue to be willing to work with this committee and others in the industry in order to achieve the result that best serves the insurance consumers of Connecticut.