



Consumer Federation of America

Testimony from Consumer Federation of America Before the Delaware Joint Finance Committee—Increased Funds for Delaware Department of Insurance

February 6th, 2024

Chair Paradee, Vice Chair Chair Williams, members of the Joint Finance Committee:

The Consumer Federation of America (CFA) urges that the Joint Finance Committee and Delaware Legislature provide additional resources and funding for the Delaware Department of Insurance so that it can better carry out its mission of making insurance more affordable and protecting consumers. Specifically, CFA asks that the Committee adopt the Department's recommendation to retain an agent fee line as a new source of operating funds, create two additional administrative positions, and implement a 9% increase in ASF authority for mandatory expense increases.

CFA is an association of consumer organizations that works to advance the consumer interest through research, advocacy, and education. For decades we have conducted research on insurance markets, worked to make insurance more affordable and accessible, and opposed unfair discrimination. Working with state Insurance Departments is essential for protecting consumers—but in order for our efforts to be effective, these Departments must have adequate resources and staff.

State Insurance Departments are the consumer protection agencies for insurance marketplaces and are in charge of ensuring that insurance rates are not excessive, inadequate, or unfairly discriminatory. They also oversee insurer solvency to pay claims, set standards for insurance agents and brokers, perform market conduct reviews of insurance companies, investigate and solve consumer complaints, and investigate and prosecute insurance fraud. Insurance is a large and complicated topic with a great many companies participating in the market. Since most consumers are unfamiliar with insurance, robust Departments are essential for guarding them against abuse and exploitation. If an Insurance Department lacks enough resources and staff to perform its functions, consumers pay the price.

The Delaware Department of Insurance produces substantial revenue for the state, but it has limited mechanisms to fund its work. Over the last three years the Department's income has decreased by 14% while its employment costs have increased by 9%. More insurance companies now operate in Delaware and the Department has also had to implement unfunded mandates which have drained already existing funds. If additional funds are not provided to the Department, the Department will have to make do with substantially less. As a result the

quality of its insurance regulation will likely decline, and customer service will be less prompt and effective.

With the recent enactment of HB 228, Delaware has become a “prior approval” state. We applaud this reform; prior approval systems, where regulators must approve insurance rate changes before insurance companies can use them, are the most effective structures for protecting consumers from excessive insurance rates. Prior approval regulations are more effective at holding down premiums for consumers while at the same time allowing reasonable insurer profits and maintaining a competitive insurance market. These regulations also promote high quality products and practices, and provide robust systems for restitution if consumers are exploited or unfairly discriminated against.

However, by becoming a prior approval state, the Legislature has enshrined additional responsibilities. These additional responsibilities in turn require extra resources for the Department, or their efficacy will be limited at best.

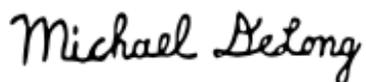
CFA therefore urges the Delaware Legislature in general, and the Joint Finance Committee in particular, to provide the following additional resources for the Department of Insurance:

- 1) Allow the Department to retain an agent fee line as a new source of Department operating funds, providing approximately \$6 million annually;
- 2) Institute a 9% increase in appropriated special funds (ASF) authority for mandated expense increases; and
- 3) Create two new administrative positions, one funded by captive insurance fees and the other funded by grants.

By providing more resources to the Insurance Department, we are confident that Delaware will see substantial benefits in the form of better consumer protection, more efficient regulation and a stronger insurance market.

Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,



Michael DeLong
Research and Advocacy Associate
Consumer Federation of America