

**Statement of Paul Tetrault, Northeast State Affairs Manager, to the  
Assembly Standing Committee on Insurance  
Regarding the Appropriateness of Funding Various  
Budget Programs by the State Insurance Department Budget  
December, 2009**

Thank you for this opportunity to present the views of the National Association of Mutual Insurance Companies (NAMIC) on the important subject of the appropriateness of funding various budget programs through the state Insurance Department budget. Founded in 1895, NAMIC is the largest, most diverse national insurance trade association in the United States. NAMIC represents the interests of its property/casualty insurance company members and their policyholders. NAMIC's membership includes farm mutual insurance companies, single-state and regional writers, and national insurers operating across North America. The more than 1,400 NAMIC members underwrite 41 percent of the automobile and homeowners insurance market in the United States. A total of 139 NAMIC member companies provide insurance coverage to New York businesses and individuals, including 55 domiciled in the state.

NAMIC recognizes the challenges faced by government leaders in balancing budgets during adverse economic times. Legislators and executive branch officials are faced with choices that go beyond difficult approaching the unthinkable. Squeezed between a need to fund beneficial programs and an unwillingness to raise revenues through direct taxation, they strive to come up with creative methods to raise funds in novel, less direct, ways.

Not infrequently, such rumination turns to insurance. Likely based on erroneous assumptions about insurers' financing and profits, policymakers attempt various ways to obtain more revenue from an industry that already pays substantial amounts directly through premium taxes.<sup>1</sup> While we have witnessed a number of instances in which state governments have sought to extract additional funding from insurers through questionable means, it is safe to say that the most egregious episode is what has taken place in New York.

Section 332 assessments imposed upon domestic insurers in New York, by the explicit language of the statute, are meant to defray "the expenses of the [insurance] department." Yet, as members of this Committee are well aware, the budget of the New York Insurance Department for many years has not been limited to funding the expenses of the Department. Through the obscure practice of sub-allocations, funds from the Department's budget are utilized for a variety of programs, many of which are not substantially related to insurance.

The practice of sub-allocations is fundamentally unsound. We are aware of no legitimate reason why programs that are unrelated to the operation of the Insurance Department should be funded through the

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<sup>1</sup> Insurance companies paid \$15.7 billion in premium taxes in 2008, or \$52 for every person living in the United States, according to the Insurance Information Institute. See <http://www.iii.org/factbook/ataglance/>.

Department's budget.<sup>2</sup> That the practice has gone on for some time without strenuous objection is likely attributable to the fact that until recently sub-allocation amounts, while substantial, were not anywhere near the levels that have been reached in recent years.

The exorbitant growth of Section 332 assessments and sub-allocations in recent years has been cause of growing concern for NAMIC members. The Department's budget for 2007-2008 provided for approximately \$200 million in assessments and more than \$ 74 million in sub-allocations. The next year's budget provided for about \$240 million in assessments supporting about \$111 million in sub-allocations. But that excessive amount was not the end for 2008-2009 thanks to the deficit reduction plan adopted in February which added \$180 million in assessments.

Not only has the magnitude of Section 332 assessments been a growing problem, but the method by which assessments have been made are a cause of concern. Insurers, like all businesses, need to conduct planning regarding revenues and expenditures and benefit from predictability and stability. It is perhaps an understatement to say that Section 332 assessments, and in particular the most recent round, were made with insufficient notice. The deficit reduction plan's additional assessment was due immediately in a single payment. Such practices are an extreme burden on insurers as they manage their finances during the year.

The arbitrary nature of assessment increases and sub-allocations is an additional matter of concern. Based on recent experience, insurers have no way of knowing how much the next round of assessments will be.

In NAMIC's view, placing a burden on insurers through assessments that are excessive and arbitrary is short-sighted. Insurers play an incredibly vital role in the economy, not only by providing coverage that enables economic activity but also by providing jobs, making investments, paying claims that allow individuals and organizations to continue as productive members of society. In difficult fiscal times, policymakers should be focusing on ensuring the preservation of a healthy business environment rather than taking actions that could harm an industry that is a foundation of the economy.

Thank you for your consideration of NAMIC's views. I would be happy to provide additional information that might be helpful to the Committee's consideration of this important subject

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<sup>2</sup> It should be stressed that NAMIC's opposition to funding programs through the sub-allocation system is not in any way a reflection of the value of programs which may in fact be meritorious. We would submit, however, that all government programs should be funded in direct manner so as to allow for appropriate assessment of value measured against cost.