

APRIL 4, 2005

GOVERNMENT AFFAIRS
COMMITTEE
REPORT NO. 3

ALL MEMBERS PRESENT.

1. RESOLVED, that the following items are hereby received and filed.
 - a. COMM. 8D-1 (2005)
COUNTY ATTORNEY: Transmittal of New Claims Against Erie County
(5-0)
 - b. COMM. 8D-6 (2005)
COUNTY ATTORNEY: Notice of Claim Filed Against ECL By Nancy Naples
(5-0)
 - c. COMM. 8D-10 (2005)
COUNTY ATTORNEY: Justice Makowski's Recent Decision
(5-0)
 - d. COMM. 8D-13 (2005)
COUNTY ATTORNEY: Transmittal of New Claims Against Erie County
(5-0)
 - e. COMM. 8M-1 (2005)
NYSAC: Copy of Resolution Approved at 2005 Legislative Conference Calling On The Governor & State Legislature To Reach Agreement On A Local Medicaid Cap
(5-0)
 - f. COMM. 8M-7 (2005)
CITY OF BUFFALO COMMON COUNCIL: Seeking Comments And/Or Recommendations on Common Council Item "M. Coppola - City County Parks Agreement
(5-0)
 - g. COMM. 8M-27 (2005)
NANCY RODRIGUEZ: Suit Against ECL Re: Buffalo School Nurses
(5-0)
 - h. COMM. 9E-13 (2005)
MARINELLI: Copy of Letter to Orchard Park Town Supervisor Re: Erie County Association of Governments
(5-0)

2. INTRO 26-5 (2004)
SMITH

WHEREAS, the insurance industry is vast, and touches nearly every segment of the national economy. Insurance companies wrote net total of approximately \$1.1 trillion in premium in 2003, or approximately 10 cents of every dollar of the \$11 trillion Gross Domestic Product, and

WHEREAS, much of this industry, however, operates in subterfuge. Under the McCarran-Ferguson Act of 1945, 15 U.S.C. § 1011 et. seq., the regulation of insurance is delegated almost entirely to the States. Disclosure laws among the States, however, vary. Furthermore, an increasing number of insurers and brokers maintain offshore operations, particularly in Bermuda, and

WHEREAS, in addition, market power in the insurance brokerage market has rapidly consolidated over the past ten years. A market study conducted by Swiss Re found that in 2002 Marsh and AON together comprised of 54 percent of the global brokerage market, and Willis comprised an additional 7 percent. These two or three firms also dominate reinsurance brokerage markets. With so much market power concentrate in two or three brokerage firms, the threat of collusion has become a reality, and

WHEREAS, looking closely at these contingent commissions, not only do insurance brokers receive contingent commissions to steer business, but many brokers, with the assistance of collusion of insurance companies engage in systematic fraud and market manipulation in order to ensure that profitable and high volume business goes to a few selected insurance companies, and

WHEREAS, the "contingent commissions" system works by: The insurance company still pays the broker. But it doesn't just pay the broker a percentage of the policy value. Instead, it pays the broker if the broker achieves some aim that is in the long-term interest of the insurer. For example, the insurance company might agree to pay the broker a "success commission" if the broker brings over \$10 million of business to that insurer in one year, or 50 percent of the clients who buy insurance from the insurer never file a claim, and

WHEREAS, persuaded by the insurance industry's argument, insurance commissioners have held that contingent commissions are permissible as long as the broker discloses their existence to the client, and as long as the clients has access to multiple bids, and

WHEREAS, Spitzer's suit alleges that the insurance brokers and companies have found a way to get around both these protections, and therefore falsely taking the money of companies that buy insurance,

NOW, THEREFORE, BE IT

RESOLVED, that many businesses in Erie County are potentially affected by the current method of operation facilitated by insurance brokerage companies, and be it further,

RESOLVED, by essentially driving up market cost of insurance to businesses by making companies pay more for property and casualty policies, tightens increasing operation cost, and be it further

RESOLVED, that the Erie County Legislature affirms its support for Attorney General Eliot Spitzer in his efforts to equalize the market of insurance brokerage, and be it further

RESOLVED, that certified copies of this resolution be transmitted to Eliot Spitzer, New York State Attorney General, 120 Broadway Avenue, New York, New York 10271.

(5-0)

LYNN M. MARINELLI
CHAIRPERSON