

HOUSE BILL REPORT

SB 6027

As Passed House:
February 27, 2024

Title: An act relating to the insurer holding company act.

Brief Description: Concerning the insurance holding company act.

Sponsors: Senators Stanford, Kuderer and Nobles; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Consumer Protection & Business: 2/16/24, 2/21/24 [DP].

Floor Activity:

Passed House: 2/27/24, 95-0.

Brief Summary of Bill

- Adopts the National Association of Insurance Commissioners' revisions to insurance holding company model acts to require solvency calculations and tests at registration.
- Establishes certain rules and requirements regarding the confidentiality of solvency calculations and tests.
- Permits the Insurance Commissioner to receive and share confidential and privileged documents, materials, and information with third-party consultants if certain conditions are met.

HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

Majority Report: Do pass. Signed by 13 members: Representatives Walen, Chair; Reeves, Vice Chair; Robertson, Ranking Minority Member; McClintock, Assistant Ranking Minority Member; Chapman, Connors, Corry, Donaghy, Hackney, Ryu, Sandlin, Santos and Volz.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Megan Mulvihill (786-7304).

Background:

National Association of Insurance Commissioners.

The National Association of Insurance Commissioners (NAIC) is governed by the chief insurance regulators from the 50 states, the District of Columbia, and five United States territories to coordinate regulation of multistate insurers. The NAIC develops legal, financial, and organizational standards for insurance regulators through its accreditation process.

Insurance Holding Companies.

An insurance holding company is a system that consists of two or more affiliated persons, one of which is an insurer. Every insurer authorized to do business in this state that is a member of a holding company system is required to be registered with the Office of the Insurance Commissioner (OIC), unless they are subject to substantially similar requirements where they are domiciled.

National Association of Insurance Commissioners Model Acts for Insurance Group Supervision.

The NAIC's Insurance Holding Company System Regulatory Act #440 and Insurance Holding Company System Model Regulation with Reporting Forms and Instructions #450 (Model Acts #440 and #450) provide state insurance regulators with a framework for insurance group supervision. Within the last couple of years, the NAIC adopted revisions to model acts applicable to insurance holding companies. The 2020 revisions create a Group Capital Calculation (GCC) and Liquidity Stress Test (LST) to provide United States regulators with additional tools for conducting group-wide supervision and help understand the financial condition of noninsurance entities. The GCC satisfies group capital assessment requirements of the Covered Agreements with the European Union and United Kingdom. The LST provides insights into the financial health and risks monitored by the United States Treasury, and it requires insurers to file the results of a specific year's LST to the state's insurance commissioner.

Model Act revisions made in 2020 will become an NAIC accreditation requirement effective January 1, 2026.

Summary of Bill:

The 2020 revisions to the NAIC Model Acts #440 and #450 are incorporated into Washington's Insurer Holding Company Act.

Group Capital Calculation and Liquidity Stress Test Requirements.

Every insurer authorized to do business in this state who is a member of an insurance holding company must file an annual GCC with the OIC at registration, concurrently with

other necessary information, unless specifically exempt. If scoped by the NAIC's LST framework, LST results are also required at registration. The report of the GCC and LST must be completed in accordance with NAIC's instructions.

Confidentiality Relating to Information From a Group Capital Calculation and Liquidity Stress Test.

The OIC must maintain the confidentiality of the GCC, the group capital ratio produced within the GCC, the LST, and supporting disclosures and information from the insurance holding company. The GCC and resulting group capital ratio, as well as LST results and supporting disclosures, are not intended as a means for ranking insurers or insurance holding companies. Publishing, or otherwise communicating to the public, the results of the GCC or LST is prohibited, except in instances to rebut a materially false statement.

Confidentiality Provisions in the Insurer Holding Company Act.

The OIC may share with and receive confidential information from third party consultants designated by the Insurance Commissioner provided that the recipient:

- agrees in writing to maintain the confidentiality and the privileged status of the information;
- agrees to ensure the information is not stored in a permanent database after the underlying analysis is completed; and
- consents to intervention or notification to an insurer under certain circumstances.

In addition, documents, materials, or other information in the OIC's possession that are proprietary and contain trade secrets, in addition to being confidential and privileged, are not subject to disclosure under the Public Records Act, subject to subpoena, subject to discovery, or admissible in evidence.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) One of the fundamental principals of state insurance regulation is to monitor the solvency of insurers to ensure they can financially fulfill promises made to their clients. These changes are accreditation standards that all states will be participating in, which 27 states have already adopted. If the state does not pass this legislation, the OIC risks losing accreditation. If accreditation is lost, insurers doing business overseas will be facing the strict standards under the European Union or United Kingdom, and domestic insurers would have to work with financial regulators in other states. The GCC provisions are part of covered agreements that the United States entered into with the United Kingdom and the

European Union. These provisions clarify accounting rules for international insurance entities. Insurance regulators do have the ability to get information on the capital of noninsurance affiliates, but there is not a consistent evaluation framework. The GCC is a new tool for monitoring the capital adequacy of an insurance holding company group as a whole. The LST aims to capture the impact on the broader financial market of the aggregate asset sales under a liquidity stress event. It helps identify those insurance groups with liquidity stress and will enable an assessment of outward impacts on the broader financial markets of a liquidity stress event impacting a larger number of insurers simultaneously.

(Opposed) None.

Persons Testifying: Bryon Welch and Michael Walker, Office of the Insurance Commissioner.

Persons Signed In To Testify But Not Testifying: None.