

SENATE BILL REPORT

HB 1172

As of March 19, 2015

Title: An act relating to the risk management and solvency assessment act.

Brief Description: Creating the risk management and solvency assessment act.

Sponsors: Representatives Stanford, Vick and Ryu; by request of Insurance Commissioner.

Brief History: Passed House: 3/02/15, 97-0.

Committee Activity: Financial Institutions & Insurance: 3/18/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Shani Bauer (786-7468)

Background: In the wake of the financial crisis of 2008, it became clear that insurance regulators needed more tools to assess the solvency of insurers and potential risks to which they may be exposed. In November 2011, as part of the National Association of Insurance Commissioner's (NAIC) Solvency Modernization Initiative, NAIC voted to adopt the U.S. Own Risk and Solvency Assessment (ORSA). ORSA is a part of the NAIC accreditation requirements and states are expected to adopt ORSA requirements into state law by 2015.

An ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. An ORSA will require insurers to analyze all reasonably foreseeable and relevant material risks, i.e. underwriting, credit, market, operational, liquidity risks, etc., that could have an impact on an insurer's ability to meet its policyholder obligations. The act introduces the ORSA Summary Report as a high-level summary of the assessment to be submitted to the insurer's regulating commissioner and the ORSA guidance manual as the manual developed and adopted by NAIC outlining ORSA procedures.

Summary of Bill: The Own Risk Management and Solvency Assessment Act is adopted. ORSA, ORSA Summary Report, and the ORSA guidance manual are defined.

An insurer or the insurance group to which the insurer is a member must conduct an ORSA on an annual basis and at any time when there are significant changes to the risk profile of the insurer or insurer group. An insurer with less than \$500 million in annual premiums or an insurance group with less than \$1 billion in annual premiums are exempt from the ORSA

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requirement. Notwithstanding, the Office of the Insurance Commissioner (Commissioner) may require an exempt insurer to maintain a risk management framework or conduct an ORSA if circumstances indicate one is needed.

An insurer that is subject to ORSA requirements must:

- annually conduct an ORSA to assess the adequacy of its risk management framework and current and estimated projected future solvency position;
- internally document the process and result of the assessment; and
- upon request of the Commissioner, but no more than annually, submit an ORSA Summary Report and any other required documentation to the Commissioner.

Documents and materials, including the ORSA Summary Report, in the possession or control of the Commissioner are confidential and exempt from public disclosure. The Commissioner may share ORSA-related information with other state, federal, and international regulatory agencies so long as the recipient agrees in writing to maintain confidentiality.

The Commissioner must require any insurer failing to file an ORSA Summary Report, to pay a fine of \$500 for each day's delay, up to a maximum fine of \$100,000. Funds from any fines collected must be transferred to the Treasurer for deposit into the state general fund.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2016.

Staff Summary of Public Testimony: PRO: This bill is partner legislation to the Holder Company Act and is the guidebook to implementation of that act. Holding company groups are exempt from maintaining a risk management program, but for everyone else, this requires a much more extensive process. This process will allow the Office of the Insurance Commissioner (OIC) to check and make sure that all is well and the company is solvent. Insurers strongly support solvency legislation and giving OIC the tools necessary to ensure companies have the resources to follow through on their obligations. It is important that the insurance regulator has the tools to regulate solvency and take action when necessary to keep the industry in a disciplined financial position. This legislation adopts stress-testing processes that have been adopted in other financial sectors following the financial crisis. It requires companies to impose stress scenarios on activities to ensure they have the capital in place to hold them through worst-case scenarios. Insurers must make regular reports to OIC as to how they are measuring up to those standards.

Persons Testifying: PRO: Lonnie Johns-Brown, OIC; Mel Sorensen, Property Casualty Insurers, American Council of Life Insurers, America's Health Insurance Plans.