

SENATE BILL REPORT

SB 6027

As of January 11, 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: Business, Financial Services, Gaming & Trade: 1/11/24.

Brief Summary of Bill

- Requires insurance holding companies to provide certain information regarding solvency at registration.
- Establishes certain rules and requirements around confidential treatment of information regarding solvency.
- Allows an insurance holding company's solvency information to be shared with a designated third-party consultant if certain conditions are met.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES, GAMING & TRADE

Staff: Kellee Gunn (786-7429)

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 U.S. 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

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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—provide state insurance departments with a framework for insurance group supervision. The intent of the act is to provide a stronger domestic legal structure under which holding companies are supervised.

Within the last couple of years, 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 U.S. regulators with additional tools for conducting group-wide supervision and help understand the financial condition of non-insurance entities. The GCC satisfies group capital assessment requirements of the Covered Agreements with the EU and UK. LST provides insights into the financial health and risks monitored by the U.S. Treasury, and requires insurers to file the results of a specific year's LST to the state 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 Holding Company Act—#440—and Model Regulation—#450—are incorporated into Washington State's Insurer Holding Company Act.

Tools to Test for Solvency in Insurance Group Supervision. Every insurer authorized to do business in this state who is a member of an insurance holding company shall file an annual GCC with the OIC at registration, concurrently with other necessary information. If scoped by the NAIC's LST framework, LST results may also be required at registration. The report of the GCC and LST must be completed in accordance with NAIC's instructions.

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 for in instances to rebut a materially false statement.

Confidentiality Relating to Information from a Group Capital Calculation and Liquidity Stress Test. The OIC shall maintain confidentiality of GCC and the group capital ratio produced within an insurance holding company's calculation or the LST and supporting disclosures and other information from the insurance holding company.

The OIC may share and receive confidential information with third party consultants designated by the commissioner provided that the recipient agrees in writing to maintain the confidentiality and the privileged status of the information; to ensure the information is not stored in a permanent database after the underlying analysis is completed; and consent to intervention or notification to an insurer under certain circumstances.

Appropriation: None.

Fiscal Note: Not requested.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: These two tools—GCC and LST—are important accounting tools for financial examiners to understand the solvency of insurance holding companies. NAIC accreditation is important as it brings uniformity—insurance is regulated at a state level and not a federal level. If OIC was ever to lose their accreditation, OIC would not be able to conduct these registrations with domestic companies, and they would need to go elsewhere. Current law focuses mainly on the risks and solvency of individual entities, and while state regulators do have the authority to obtain information regarding the capital of non-insurance affiliates, they do not all have a consistent framework for evaluating such information. The GCC provides key financial information on the insurance group, quantifies risk across the group, and aids in understanding whether insurance companies may be supporting the operations of non-insurance entities. This legislation establishes LST, which is a new tool to help monitor group liquidity risks. As of December 2023, 27 other states have adopted this.

Persons Testifying: PRO: Senator Derek Stanford, Prime Sponsor; Bryon Welch, Office of the Insurance Commissioner; Michael Walker, Office of the Insurance Commissioner.

Persons Signed In To Testify But Not Testifying: No one.