

Date of Hearing: April 15, 2021

ASSEMBLY COMMITTEE ON INSURANCE

Tom Daly, Chair

AB 494 (Mayes) – As Amended April 5, 2021

SUBJECT: Insurance Holding Company System Regulatory Act

SUMMARY: Assists in the evaluation of insurance group risk and liquidity stress and help California retain accreditation from the National Association of Insurance Commissioner (NAIC) by amending the Insurance Holding Company System Model Act and Model Regulation provisions. Specifically, **this bill:**

- 1) Requires the ultimate controlling person of an insurer subject to registration under the Insurance Holding Company System Regulatory Act to file an annual group capital calculation, unless a specified exemption applies.
- 2) Requires the ultimate controlling person of an insurer subject to registration under the Insurance Holding Company System Regulatory Act and scoped into the NAIC Liquidity Stress Test Framework to file the results of a specific year's liquidity stress test.
- 3) Allows the California Insurance Commissioner (Commissioner) to share certain confidential documents obtained or disclosed pursuant to provisions of the Insurance Company System Company Regulatory Act to be shared with the NAIC and a third-party consultant designated by the Commissioner.

EXISTING LAW:

- 1) Provides that, as a matter of federal law, the regulation of insurance is to be carried out by the individual states.
- 2) Requires every insurer that is authorized to do business in this state and that is a member of in insurance holding company system to register with the Commissioner.
- 3) Provides for a number of financial solvency regulatory rules that both the Commissioner and insurers must comply with in order to satisfy NAIC "accreditation" requirements. These accreditation requirements take the form of NAIC recommendations, but as a practical matter, domestic insurers in a state that is not accredited face significant regulatory burdens in other states in which they do business. Consequently, there is a substantial premium on each state maintaining its accredited status.
- 4) Requires the ultimate controlling person of an insurer subject to registration under the Insurance Holding Company System Regulatory Act to file an annual enterprise risk report as determined by NAIC procedures.
- 5) Allows the Commissioner to share certain confidential documents obtained or disclosed pursuant to provisions of the Insurance Company System Company Regulatory Act to be shared with NAIC and its affiliates and subsidiaries under specified circumstances.

FISCAL EFFECT: Unknown.

COMMENTS:

- 1) *Purpose.* According to the author, “The National Association of Insurance Commissioners (NAIC) adopted revisions to the NAIC Insurance Holding Company System Model Act and Model Regulation last December. This proposal amends California law to assist in evaluation of insurance group risk and liquidity stress, and will help California retain NAIC accreditation for the California Department of Insurance.”
- 2) *NAIC.* The NAIC is the U.S. standard-setting and regulatory support organization created by and composed of the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC establishes standards and best practices, conducts peer reviews, and coordinates regulatory oversight by Commissioners in the U.S. NAIC is a key part of the national system of state-based insurance regulation. The NAIC’s primary mission is to promote uniform practices amongst states in regulating multi-state insurers.
- 3) *NAIC Accreditation.* Accreditation is given to a state insurance department once it has demonstrated it has met and continues to meet an assortment of legal, financial and organizational standards established by the NAIC. Accreditation allows for inter-state regulatory cooperation and reduces regulatory redundancies. For instance, if a company is domiciled in an accredited state, the other states in which that company is licensed and/or writes business may be assured that, because of its accredited status, the domiciliary state is adequately monitoring the financial solvency of that company. In fact, other state Commissioners can accept the examination report prepared by another accredited insurance department in lieu of performing its own financial examination which ultimately saves millions of dollars in duplicative regulatory costs. This uniformity and cooperation allows for insurers to operate efficiently in multiple states.

REGISTERED SUPPORT / OPPOSITION:

Support

California Department of Insurance

Opposition

None received.

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