
CONSENT

Bill No: AB 494
Author: Mayes (I)
Amended: 4/5/21 in Assembly
Vote: 21

SENATE INSURANCE COMMITTEE: 12-0, 6/24/21

AYES: Rubio, Jones, Archuleta, Bates, Borgeas, Dodd, Glazer, Hueso, Hurtado, Melendez, Portantino, Roth

SENATE JUDICIARY COMMITTEE: 11-0, 7/6/21

AYES: Umberg, Borgeas, Caballero, Durazo, Gonzalez, Hertzberg, Jones, Laird, Stern, Wieckowski, Wiener

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 77-0, 5/6/21 (Consent) - See last page for vote

SUBJECT: Insurance Holding Company System Regulatory Act

SOURCE: Author

DIGEST: This bill amends the Insurance Holding Company System Model Act and Model Regulation provisions to assist in the evaluation of insurance group risk and liquidity stress. This will help California retain accreditation from the National Association of Insurance Commissioners (NAIC).

ANALYSIS:

Existing law:

- 1) Provides, under the McCarran-Ferguson Act, that as a matter of federal law, the regulation of insurance is to be carried out by the individual states (15 U.S.C. §§ 1011-1015).

- 2) Requires every insurer that is authorized to do business in this state and that is a member of an insurance holding company system to register with the California Insurance Commissioner (Commissioner) (CIC § 1215.4).
- 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 (CIC §§ 1215-1215.18).
- 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 (CIC § 1215.4(m)).
- 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 (CIC § 1215.8).

This bill:

- 1) Incorporates NAIC recommendations regarding a group capital calculation and a liquidity stress test into the Insurance Holding Company System Regulatory Act.
- 2) 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.
- 3) 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.
- 4) 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 the NAIC and a third-party consultant designated by the Commissioner.

Comments

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.”

The NAIC was established in 1871 by state insurance regulators. It promotes uniformity of financial reporting by insurers from one state to another. The NAIC is a non-profit entity consisting of the head insurance regulator for all 50 states and all five territories. It governs all forms of insurance and allows individual state insurance commissioners to coordinate their regulatory efforts with commissioners in other states.

The NAIC Financial Regulation Standards and Accreditation Program was established to develop and maintain standards to promote effective insurance company financial solvency regulation. The purpose of the accreditation program is for state insurance departments to meet baseline standards deemed essential for effective solvency regulation in each state and create a baseline level of effective financial regulatory oversight.

Accreditation is a certification 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 as determined by a committee of its peers.

2020 Revisions

In December 2020, the NAIC unanimously adopted revisions to the Insurance Holding Company System Model Act and Model Regulations in order to enable the requirement for the Group Capital Calculation (GCC) for insurance groups and the Liquidity Stress Test (LST) framework for large U.S. life insurance companies.

The NAIC started development of the GCC in 2015 in response to lessons learned from the 2008 financial crisis. It provides regulators an understanding of an insurance group’s financial risk profile and the available capital/financial resources within the insurance group. While state insurance regulators currently have the authority to obtain information regarding the capital of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information.

The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist state insurance regulators in identifying risks that

may emanate from a holding company system. More specifically, the GCC and related reporting provides more transparency to state insurance regulators regarding insurance groups and make risks more identifiable and more easily quantified.

The LST as a regulatory tool was developed starting in 2017 as part of a larger initiative to enhance risk identification efforts by building on the state-based regulation system. It provides state insurance regulators with insights and the ability to assess key macro-prudential impacts on the broader financial markets and the related risks that are monitored by the Financial Stability Oversight Council and other jurisdictions internationally. It also enhances group supervision, and requires every insurer subject to registration to file the results of a specific year's liquidity stress test to the lead state insurance commissioner.

There is a potential consequence for failure to adopt this regulatory act in the form of lost accreditation status. The NAIC has recommended this accreditation standard become effective in November 2022 with enforcement of the standard to commence on January 1, 2023.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 8/17/21)

California Department of Insurance

OPPOSITION: (Verified 8/17/21)

None received

ARGUMENTS IN SUPPORT: Supporters generally argue this bill will help the California Department of Insurance better evaluate insurance group risk and liquidity stress of insurance companies to understand their financial risk profile and solvency.

The California Insurance Commissioner, Ricardo Lara, writes in support, "This bill contains 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."

ASSEMBLY FLOOR: 77-0, 5/6/21

AYES: Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bigelow, Bloom, Boerner Horvath, Burke, Calderon, Carrillo, Cervantes, Chau, Chen, Chiu, Choi, Cooley, Cooper, Cunningham, Megan Dahle, Daly, Davies, Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Eduardo Garcia, Gipson, Lorena Gonzalez, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kiley, Lackey, Lee, Levine, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Muratsuchi, Nazarian, Nguyen, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Seyarto, Smith, Stone, Ting, Valladares, Villapudua, Voepel, Waldron, Ward, Akilah Weber, Wicks, Wood, Rendon

NO VOTE RECORDED: Mullin

Prepared by: Brian Flemmer / INS. / (916) 651-4110
8/18/21 14:44:51

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