

# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

**BILL NO.** Senate Bill 1222

**PRINTER NO.** 1646

**AMOUNT**

No Fiscal Impact

**FUND**

General Fund

**DATE INTRODUCED**

May 16, 2022

**PRIME SPONSOR**

Senator DiSanto

**DESCRIPTION**

Senate Bill 1222 amends the Insurance Company Law of 1921 to provide for compliance with Group Capital Calculation (GCC) and Liquidity Stress Test (LST) requirements for insurers within an insurance holding company system and for the group-wide supervision of international insurance groups.

The bill amends Section 1401 (definitions) to add:

- Group-wide supervisor;
- Internationally active insurance group;
- Lead state;
- NAIC liquidity stress test framework; and
- Scope criteria.

The bill amends Sections 1402 (acquisition of control of or merger or consolidation with domestic insurer) and 1404 (registration of insurers):

- Insurers subject to registration shall file an annual GCC report as directed by the lead state regulator of the insurance holding company system. Senate Bill 1222 provides exceptions for those not required to file the GCC such as systems with a single insurer only writing business in a domestic state. The commissioner, as the lead state regulator, shall have discretion on exemptions from filing the GCC or the ability to accept a limited GCC filing;
- Insurers subject to registration and scoped into the NAIC LST framework shall file the results of a specific year’s LST with the lead state regulator of the insurance holding company system. Insurers meeting at least one threshold of the scope criteria are considered scoped into the NAIC LST framework unless the lead state regulator determines the insurer should not be scoped for that year; and
- Insurers that do not trigger at least one threshold of the scope criteria are considered scoped out of the NAIC LST unless the lead state regulator determines otherwise.

The bills adds Section 1404.1 (group capital calculation exemptions):

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The commissioner has the discretion to exempt insurers from filing the annual GCC or accept a limited GCC filing for insurance holding company systems that meet specific criteria involving system size and relation to other financial entities subject to regulatory capital frameworks;

- For insurance holding company systems that have previously met an exemption with respect to filing the GCC, the commissioner may require a system to file an annual GCC if specific criteria are met, such as the onset of a hazardous financial condition or exhibiting qualities of a troubled insurer; and
- The NAIC shall publish a list of jurisdictions outside the U.S. that recognize and accept the GCC as well as situations in which a jurisdiction is exempt from filing or requires a GCC filing for any U.S.-based insurance group operations in a jurisdiction outside the U.S. The commissioner may make a determination that differs from the NAIC list and shall provide documented justification.

The bill amends Section 1405 (standards and management of an insurer within an insurance holding company system):

- If the commissioner deems an insurer subject to this act to be in hazardous financial condition under 31 Pa. Code Ch. 160, the commissioner may require the insurer to secure and maintain a deposit, held by the commissioner, or a bond for the protection of the insurer for the duration of the contract or agreement or the existence of the condition for which the commissioner required the deposit or bond;
- Senate Bill 1222 specifies all records and data of the insurer held by an affiliate are and remain the property of the insurer and that a receiver may obtain a complete set of all records of any type that pertain to the insurer's business. Premiums or other funds belonging to the insurer that are collected by or held by an affiliate are the exclusive property of the insurer. Any right of offset in the event an insurer is placed into receivership shall be subject to Article V of the Insurance Department Act of 1921.

Senate Bill 1222 amends Sections 1406.2 (group-wide supervision for international insurance groups) and 1407 (confidential treatment):

- Senate Bill 1222 removes existing definitions of "group-wide supervisor" and "international insurance group;"
- The commissioner shall maintain confidentiality of the GCC report and supporting disclosures from an insurance holding company system supervised by the Federal Reserve Board or any group-wide supervisor within or located outside the U.S;

The department in performance of its duties may share confidential and privileged documents with regulatory or law enforcement officials and any third-party consultants retained by the commissioner, the NAIC, and group-wide supervisors provided a recipient demonstrates by written statement to

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ensure the same confidential treatment as required by this article. The department may similarly receive and maintain confidential and privileged documents from other entities.

- The GCC and LST results and supporting disclosures are regulatory tools for capital adequacy, liquidity and associated risks and are not a means to rank insurers or company systems generally. It is misleading and prohibited to disseminate results before the public as an advertisement, announcement or statement; and
- Insurance holding company systems may demonstrate to the commissioner if any materially false statement with respect to the GCC or an inappropriate comparison is made in any written publication such that the insurer may publish an announcement for the sole purpose to rebut the materially false statement.

The bill adds Section 1414 (compliance with group capital calculation and liquidity stress test requirements):

- Insurers that are part of an internationally active insurance group shall comply with the GCC upon the effective date of this section. All other insurers shall file a GCC no later than January 1, 2026; and
- Insurers shall be subject to the LST requirements on January 1, 2023.

This act shall take effect in 60 days.

### **FISCAL IMPACT:**

According to the Insurance Department, Senate Bill 1222 will have no fiscal impact to the Commonwealth.