

- SUBJECT:** Regulating internationally active insurance groups
- COMMITTEE:** Insurance — favorable, without amendment
- VOTE:** 9 ayes — Phillips, Muñoz, R. Anderson, Gooden, Oliverson, Paul, Sanford, Turner, Vo
- 0 nays
- WITNESSES:** For — Ted Kennedy, AIG; (*Registered, but did not testify:* Deborah Polan, AIG; Thomas Ratliff, American Insurance Association; John Marlow, Chubb; Jennifer Cawley, Texas Association of Life & Health Insurance)
- Against — None
- On — (*Registered, but did not testify:* Doug Slape, Texas Department of Insurance)
- BACKGROUND:** Insurance Code, ch. 823 regulates activities of insurance holding company systems to ensure they have sufficient capital to pay policyholders' claims.
- DIGEST:** HB 3220 would allow the Texas Commissioner of Insurance to regulate internationally active insurance groups (IAIG), defined by the bill as an insurance holding company system that is registered in Texas and has:
- premiums written in at least three countries;
 - at least 10 percent of its total gross premiums written outside the United States; and
 - total assets of at least \$50 billion or total gross written premiums of at least \$10 billion based on a three-year rolling average.
- Supervision.** The commissioner would be authorized to act as the group-wide supervisor for any IAIG. The commissioner could acknowledge another regulatory official as group-wide supervisor when the IAIG did not have substantial insurance operations in the United States, had

substantial operations in the United States but not in Texas, or had substantial operations in both but the commissioner determined for another reason that the other official was the appropriate supervisor. An insurance holding company system that did not otherwise qualify as an IAIG could request that the commissioner determine or acknowledge a group-wide supervisor.

In making a determination or acknowledgment of a group-wide supervisor, the commissioner would be required to consider several factors listed in the bill. Some of these would include the domicile of significant insurers within the insurance group, the location of major insurance group offices, whether another regulatory official sought to act as a group-wide supervisor under a regulatory system similar to Texas' or was otherwise sufficient, and whether another regulatory official provided reasonably reciprocal recognition and cooperation. In addition, the bill would require that the commissioner's acknowledgement of the supervisor be made in cooperation with other regulatory officials involved with supervising members of the IAIG and in cooperation with the IAIG.

The commissioner would be required to make a determination or acknowledgment of the appropriate group-wide supervisor in the event of certain material changes that resulted in Texas becoming the domicile of the top-tiered insurers in the holding company or becoming where the largest share of the group's premiums, assets, or liabilities were domiciled. The commissioner would be authorized to collect all information necessary to determine whether the commissioner could act as the group-wide supervisor. Prior to issuing such a determination, the commissioner would be required to provide notice to the IAIG, which would have up to 30 days to provide additional information.

Risk assessment. If the commissioner was the group-wide supervisor, the commissioner would be authorized to request information from any group members to assess risks, identify and develop measures to recognize and mitigate risks, and communicate through supervisory colleges with other state, federal, and international regulators to share information under applicable confidentiality requirements.

The commissioner also would be authorized to enter into agreements or obtain documentation from any registered insurer, any member of the IAIG, and any other state, federal, and international regulatory agency for the IAIG's members. The agreements or documentation could not be used as evidence to show that any insurer or person within the holding company system that was not domiciled or incorporated in Texas was doing business in Texas or otherwise was subject to jurisdiction in Texas.

If the commissioner acknowledged that a group-wide supervisor was a regulatory official from a jurisdiction not accredited by the National Association of Insurance Commissioners, the commissioner would be authorized to cooperate through supervisory colleges or otherwise with that supervisor in compliance with Texas laws and the recognition and cooperation of the supervisor.

Expenses. A registered insurer subject to the provisions of the bill would be required to pay reasonable expenses for the commissioner's administration, including fees for attorneys, actuaries, and other professionals and all reasonable travel expenses.

Disclosure. The bill would change the threshold for disclosing information about a transaction on an insurer's registration statement from the lesser of 0.5 percent of an insurer's admitted assets or 5 percent of surplus to 0.5 percent of an insurer's admitted assets as of December 31 of the year preceding the date of a transaction.

Effective date. This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2017, and would apply only to transactions that occurred and to information obtained by or provided to the commissioner on or after that date.

SUPPORTERS
SAY:

HB 3220 would address concerns that international regulators might enforce group-wide regulatory requirements on certain Texas-based insurers by giving the Commissioner of Insurance explicit statutory

authority to serve as the group-wide supervisor for an internationally active insurance group (IAIG). The bill would protect the state's interest in regulating a few large Texas insurance companies that operate internationally if those companies wanted Texas to serve in that role. It also would provide the regulatory framework that could allow Texas to become the primary regulator of other IAIGs that wanted to be regulated by Texas rather than another jurisdiction.

Following the 2008 international financial crisis and the broader globalization of insurance markets, the supervision of IAIGs has garnered attention among regulators. International regulators have threatened to enforce group-wide regulatory requirements on U.S.-based insurers due to the absence of explicit statutory authority for a state to serve as the group-wide supervisor. This type of international regulation could add regulatory requirements that potentially conflict with Texas laws and increase costs on the insurers.

Holding company systems, or groups, may encompass not only insurance companies but entities such as banks and securities firms. The bill would provide the regulatory authority to the commissioner to monitor the IAIG to ensure that affiliated insurance companies had the solvency to pay policyholders' claims.

The bill would codify regulatory activities and cost-related fees already in practice at the Texas Department of Insurance, which recommended changes to the Insurance Code in its December 2016 report to the Legislature. The bill is based on model language adopted by the National Association of Insurance Commissioners to allow a state regulator sufficient oversight of IAIGs to avoid federal regulation.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

A companion bill, SB 1071 by Hancock, was reported favorably by the Senate Business and Commerce Committee on April 24 and recommended for the Senate local and uncontested calendar.

