

PA12-103

SB0411

House	7797-7800, 7852-7854	7
Insurance	963-966, 969-970, 1035-1036, 1079-1089	19
<u>Senate</u>	<u>1074-1086, 1178-1179</u>	<u>15</u>
		41

H - 1145

**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
2012**

**VOL.55
PART 23
7514 - 7863**

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

619
MAY 8, 2012

The ayes have it.

The amendment is adopted.

Will you remark further?

Representative Fox.

REP. FOX (146th):

Thank you, Mr. Speaker.

I would ask that this also be placed on the
consent calendar.

DEPUTY SPEAKER ARESIMOWICZ:

The motion before us is to place the item on the
consent calendar.

Is there objection? Is there objection?

Hearing none, this item is placed on the consent
calendar.

Will the Clerk please call Calendar 430?

THE CLERK:

On page 20, Calendar 430, Substitute for Senate
Bill Number 411, AN ACT CONCERNING THE INSURANCE
HOLDING COMPANY SYSTEM REGULATORY ACT, favorable
report by the Committee on Insurance.

DEPUTY SPEAKER ARESIMOWICZ:

Representative Megna of the 97th, you have the
floor, sir.

REP. MEGNA (97th):

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

620
MAY 8, 2012

Thank you, Mr. Speaker.

Mr. Speaker, I move acceptance of the joint committees' favorable report and passage of the bill in concurrence with the Senate.

DEPUTY SPEAKER ARESIMOWICZ:

The question before the Chamber is on acceptance of the joint committees' favorable report and passage of the bill in concurrence with the Senate.

Will you remark, sir?

REP. MEGNA (97th):

Yes, Mr. Speaker.

With this bill does it expands the regulatory authority of the Department of Insurance to impact mergers, acquisitions, and registers of insurance companies doing business in the state and it also empowers the Commissioner to look into the actions of holding companies as they relate to insurance companies domiciled here in the state doing business.

Mr. Speaker, the Clerk is in possession of LCO 3186. I asked that it be called, and I be permitted to summarize?

DEPUTY SPEAKER ARESIMOWICZ:

Will the Clerk please call LCO Number 3186, which will be designated as Senate Amendment "A"?

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

621
MAY 8, 2012

THE CLERK:

LCO 3186, Senate "A" offered by Representative
Megna and Senator Crisco.

DEPUTY SPEAKER ARESIMOWICZ:

Representative seeks leave of the Chamber to
summarize the amendment.

Is there objection to summarization? Is there
objection to summarization?

Hearing none, representative Megna, you have the
floor, sir.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

Mr. Speaker, this does a date change, makes some
clarifying and technical changes.

And with that, I move adoption of this amendment.

DEPUTY SPEAKER ARESIMOWICZ:

The question before the Chamber is on adoption of
Senate Amendment Schedule "A."

Will you remark further on the amendment? Will
you remark further on the amendment?

If not, I will try your minds.

All those in favor, please signify by saying aye.

REPRESENTATIVES:

Aye.

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

622
MAY 8, 2012

DEPUTY SPEAKER ARESIMOWICZ:

Those opposed, nay.

The ayes have it.

The amendment is adopted.

Will you remark further on the bill as amended?

Representative Megna.

REP. MEGNA (97th):

Thank you, Mr. Speaker.

I move that -- I'd ask that this be moved to
consent calendar?

DEPUTY SPEAKER ARESIMOWICZ:

The motion before us is to place this item on the
consent calendar.

Is there objection? Is there objection?

Hearing none, this item is placed on the consent
calendar.

Will the Clerk please call Calendar 444?

THE CLERK:

On page 22, Calendar 444, Substitute for Senate
Bill Number 67, AN ACT CONCERNING REVISIONS TO THE
BANKING STATUTES, favorable report the committee on
Government Administration and Elections.

DEPUTY SPEAKER ARESIMOWICZ:

Representative Tong of the 147th, you have the

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

674
MAY 8, 2012

On page 7, Calendar 219, House Bill Number 5148,
AN ACT CONCERNING AN ACT CONCERNING COMMUNICATIONS TO
VICTIMS OF THE CURRENT OPERATION OF A MOTOR VEHICLE
THAT RESULTS IN DEATH OR SERIOUS PHYSICAL INJURY.
DEPUTY SPEAKER ARESIMOWICZ:

The distinguished Majority Leader, Representative
Sharkey.

REP. SHARKEY (88th):

Thank you, Mr. Speaker.

Good to see you up there.

DEPUTY SPEAKER ARESIMOWICZ:

Thank you, sir.

REP. SHARKEY (88th):

Mr. Speaker, this represents the consent calendar
and for everyone's edification, I will be listing off
the calendar numbers in numerical order so that
everyone can follow. I'll try keep it -- and make
sure that I do it in numerical order. Thank you.

These will be: Calendar Number 90, Number 155,
Number 219, Number 223, Number 290, Number 320, Number
338, Number 345, Number 389, Number 430, Number 444,
Number 455, Number 467, Number 470, Number 475, Number
481, Number 485, Number 488, Number 489, Number 494,

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

675
MAY 8, 2012

Number 496, Number 497, Number 505, Number 510, Number
513, Number 525, and Number 531.

I move adoption, I move adoption.

And with that, Mr. Speaker, I move adoption of
the consent calendar. I move the consent calendar.

(Speaker Donovan in the Chair.)

SPEAKER DONOVAN:

The question before us is on passage of the bills
on today's consent calendar.

Will you remark?

If not, staff and guests please come to the well
the House. Members take their seats. The machine
will be open.

THE CLERK:

The House of Representatives is voting by roll
call. Members to the chamber. The House is voting
today's consent calendar by roll call. Members to the
chamber please.

SPEAKER DONOVAN:

Have all members voted? Have all members voted?

Please check the roll call board to make sure
your vote has been properly cast.

cd/sg/lg/sd/ev
HOUSE OF REPRESENTATIVES

676
MAY 8, 2012

If all members have voted, the machine will be locked, and the Clerk will take a tally.

The Clerk please announce the tally.

THE CLERK:

On today's consent calendar

Total number voting	144
Necessary for passage	73
Those voting Yea	144
Those voting Nay	0
Those absent and not voting	7

SPEAKER DONOVAN:

The consent calendar passes.

Any announcements or introductions? Any announcements or introductions?

Is there any business on the Clerk's desk?

THE CLERK:

A list of Senate bills, Mr. Speaker.

SPEAKER DONOVAN:

Representative Brendan Sharkey.

REP. SHARKEY (88th):

Thank you, Mr. Speaker.

I move that we waive -- waive the reading of the bills and have these items placed immediately on the House calendar.

**STANDING
COMMITTEE
HEARINGS**

**INSURANCE AND
REAL ESTATE
PART 3
638 – 984**

2012

cetera. There's just -- there's just many, many, many good ideas here. And I just want to thank you for that.

Are there any questions of the Speaker? Thank you very much, Mr. Speaker. Thank you.

I'm just going to go out of line here just for a -- the -- the next person, Commissioner Leonardi on Senate Bill 411 and House Bill 5484.

Welcome, Commissioner.

COMMISSIONER THOMAS LEONARDI: Thank you very much. (Inaudible) or do both and then take questions, whatever your preference.

Okay, Senator Crisco and Representative Megna, Senator Kelly, Representative Sampson and members of the committee, the Insurance Department appreciates the opportunity to submit testimony in support of Raised Bills 5484 and 411.

I am Thomas B. Leonardi, the Insurance Commissioner for the State of Connecticut. And I'd like to thank the committee for raising these initiatives on our behalf.

The two proposals before you today reflect our department's two top legislative initiatives. Both reflect Model Act provisions that have been reviewed, approved and unanimously adopted by the National Association of Insurance Commissioners, the NAIC, whose membership is comprised of all 50 states, the District of Columbia and five U.S. territories.

The first proposal I'd like to address is R.B. 411, the Insurance Holding Company System

6
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

Regulatory Act. As a bit of background, an insurance holding company system consists of two or more affiliated persons, one or more of which is an insurance company. Of the roughly 7,800 insurance companies regulated by state insurance departments, 78 percent of those operate within a holding company system.

In Connecticut, we have 109 domestic companies and all but one operate within a holding company. All states and the District of Columbia have adopted the language substantially similar to NAIC Insurance Holding Company System Regulatory Act. This is required in order for a state to comply with NAIC accreditation.

The provisions in these laws are designed to regulate mergers and acquisitions, transactions among domestic insurers and other affiliated entities with explicit standards to safeguard the financial security of the insurer. Insurance is one segment of a broader financial services marketplace and has certain interlinkages with banks and other financial firms.

The recent global financial crisis of 2008 offered an opportunity to learn that activities of noninsurance entities within a holding company system can still have an impact on the insurers due to the problem of risk concentration in unregulated entities and the consequent contagion and representational risk. One only need to look at what happened to AIG.

That a small financial products group operating out of offices in London, not regulated by any insurance supervisor in the U.S. or in the U.K. could write such an enormous amount of credit default swaps that when they went bad -- not

7
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

only did they take down the largest insurance company the world has ever known, but brought down the entire worldwide economy. And that is, quite frankly, inconceivable.

Yet, that's exactly what happened and we can't afford to allow something like that to happen again. This amendment to the model holding company Act is intended to provide so many of the tools that will allow us to prevent such an event from ever happening again.

In the aftermath of the financial crisis, the NAIC has been reviewing the current holding company Act and recognized the need to modernize the Act to give insurance departments through the country the added authority and scope needed to effectively regulate in this ever changing global financial economy.

The bill includes the following major components. First, the proposal grants additional authority over holding company activities through the definition of enterprise risk. The Department will gain an overview of the entire group and have the ability to peer through the window of the holding company to see how all of the activities impact the insurer.

Second, it allows the establishment of supervisory colleges, which are created by a commissioner to assess a domestic insurer that is part of an internationally active holding company system in order to review their business strategy, financial position, risk exposure, asset and liability matching, liquidity, capital adequacy and the company's management and governance processes.

8
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

Third, the amendment further defines the standards used in determining whether a company acquisition will lessen competition in any line of insurance or create a monopoly.

U.S. regulators and international standing -- standard setting organizations have taken steps to improve the financial services regulatory system and encourage more frequent communication and coordination among financial supervisors, including insurance regulators. Passage of this initiative will give our department the additional regulatory authority needed to protect Connecticut consumers by allowing the Insurance Department to oversee and regulate this complex insurance and financial services sector and retain our strong regulatory reputation, both locally as well as nationally.

I can take questions or I can move to the next, whatever your preference.

Okay, I'll -- okay, so I'll move to the next one.

This is the credit for reinsurance, Raised Bill Number 5484. This proposal updates Connecticut's current statutes concerning credit for reinsurance and reflects the credit for Reinsurance Model Law recently adopted by the National Association of Insurance Commissioners. The proposal has been under discussion at the NAIC for numerous years and was formally adopted unanimously on November 6th, 2011. The intent is to reduce reinsurance collateral requirements for qualified reinsurers as part of a larger effort to modernize reinsurance regulations in the United States.

11
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

these important regulatory and modernization issues. I'd be happy to answer questions.

REP. MEGNA: There we go.

Thank you, Commissioner. Commissioner, who does the certification of the reinsurer? Who will be doing that?

COMMISSIONER THOMAS B. LEONARDI: (Inaudible).

REP. MEGNA: Oh, okay. All right. Thank you very much.

Representative Sampson.

REP. SAMPSON: Thank you, Mr. Chairman. Thank you for being here, Commissioner. Your testimony was very thorough and it actually leaves me with very few questions.

I just want to confirm for the benefit of the committee that with regard to 5484 that this is, in fact, permissive. You're going to assign a rating based on the criteria that you laid out, but this doesn't mean that every reinsurer is going to have the opportunity to get a reduced collateral amount. It's just -- it's going to be subject to that rating that you provide.

COMMISSIONER THOMAS B. LEONARDI: That's correct. If -- if -- a company would need to reach the highest levels of financial integrity. And in addition, for a foreign reinsurer, it would have to be regulated in its domestic jurisdiction by a highly reputable jurisdiction that's also certified.

REP. SAMPSON: Understood. And regard -- with regard to the other bill, S.B. 411, I notice

12
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

that there is some testimony from some other folks, asking that the implementation be delayed because of some reports that need to be generated. I - just -- can I ask if you're in favor of that -- that delay? Do you have an opinion on it?

COMMISSIONER THOMAS B. LEONARDI: My initial reaction was that it would preferable that it not be delayed. But I'm -- I'm not up to speed on what exactly the issues are and so subject to hearing some more about it.

REP. SAMPSON: Understood. Thank you, Commissioner and thank you, Mr. Chairman.

REP. MEGNA: Thank you. Are there any other questions for the Commissioner? No? Thank you very much, Commissioner, keep up the good work.

Next up, Comptroller Kevin Lembo.

Welcome, Kevin.

COMPTROLLER KEVIN LEMBO: Good afternoon. Good afternoon, Representative Megna, Senator Crisco, it's good to see you. Members of the committee, Representative D'Amelio, Albert, Sampson, and I know Representative Schofield is here as well.

Thank you for the opportunity of -- be before you today to favor -- I'm Kevin Lembo, the state Comptroller -- and to testify in favor of House Bill 5487.

I'd like to thank Speaker Donovan and his staff and the Small Business Health Care Working Group for their efforts in drafting this legislation. The bill promises -- or holds the promise to help employers overcome one of the

**STANDING
COMMITTEE
HEARINGS**

**INSURANCE AND
REAL ESTATE
PART 4
985 – 1325**

2012

78
tmj/gbr INSURANCE AND REAL ESTATE COMMITTEE
March 13, 2012
1:00 P.M.

IAC requests that -- that such a change be made to this bill. Thank you.

REP. MEGNA: Thank you, Bob. Are there any questions? No. Thank you very much.

ROBERT KEHMNA: Thank you.

REP. MEGNA: We'll move on to House Bill 5484. Matthew Wulf.

MATTHEW WULF: Thank you, Mr. Chairman, members of the committee. My name is Matthew Wulf with the Reinsurance Association of America. The RAA is the trade assoc -- association representing reinsurers who write U.S. risk. And I'm here today to speak in support of House Bill 5484, the credit for reinsurance bill that Commissioner Leonardi laid out so well earlier today that I'm going to keep my comments very brief.

Thank you for bringing this bill up. It's a -- it's a very important bill. I think it's good for Connecticut. I think it's good for insurers and consumers. It's an important piece of legislation, generally. I just want to touch on one point and that is the modernization point that Commissioner Leonardi mentioned.

This bill is particularly important in light of the discussions surrounding regulatory modernization in the insurance realm, both internationally and at the federal level. This is a chance for Connecticut to continue its role as an insurance leader. It's a chance for the states to show that they can address international insurance issues. It's really just -- again, for all the reasons that the Commissioner laid out, we support the bill. We

Bob Kehmna

11/10

STATEMENT**INSURANCE ASSOCIATION OF CONNECTICUT**

Insurance and Real Estate Committee

March 13, 2012

SB 411, An Act Concerning The Insurance Holding Company
System Regulatory Act

The Insurance Association of Connecticut (IAC) would like to make the following comment on SB 411, An Act Concerning The Insurance Holding Company System Regulatory Act.

SB 411 is intended to amend the state's Insurance Holding Company Act to mirror recent changes made to the NAIC's Model Act on the same subject.

As part of those changes, SB 411 requires insurers to file an annual enterprise risk report with the Insurance Commissioner (section 6, C.G.S. 38a-135(f)). The report is to outline "the material risks within the insurance holding company system that could pose enterprise risk to the insurance company." What constitutes "enterprise risk" is defined in the bill.

IAC requests that the provisions relating to the enterprise risk report requirement have a separate effective date of July 1, 2013. Work is ongoing at the NAIC on projects that are closely tied to the new enterprise risk reporting requirements. In particular, NAIC is actively working on a new model for its Own Risk and Solvency Assessment proposal.

Since that work is not complete, IAC is requesting a delayed effective date for that portion of the bill in order to allow sufficient time for the requirements to be finalized and for regulators and insurers to be fully prepared. In addition, the Model Act contemplates extensive cooperation among states regarding enterprise risk report issues. A delayed

effective date will allow more states to pass conforming legislation, facilitating that cooperation.

Recent states that have adopted the new NAIC Holding Company Act, such as Rhode Island and Texas, have similarly delayed the effective date for enterprise risk reporting requirements.

IAC requests that such a change be made to SB 411.



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

2600 South River Road, Des Plaines, IL 60018-3206

FTR

STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

S.B. 411-AN ACT CONCERNING THE INSURANCE HOLDING COMPANY SYSTEM REGULATORY ACT

COMMITTEE ON INSURANCE AND REAL ESTATE

March 13, 2012

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on S.B. 411, legislation adopting amendments to the National Association of Insurance Commissioners' (NAIC) Model Holding Company Act. PCI is a national property casualty trade association comprised of over 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI member companies write approximately 42.7 percent of all property and casualty insurance sold in Connecticut.

PCI participated in extended negotiations with the NAIC on the drafting of the amendments, which are intended to provide regulators with more information about potential risks to insurers from non-insurance affiliates within a holding company. The revised model augments the power of regulators to supervise insurance holding company systems while also providing enhanced confidentiality protections for information the companies now must submit to regulators. This bill is an important step forward in avoiding the type of problems experienced by AIG as a result of the activities of non-insurance affiliates and it's a key to holding company solvency.

Key provisions of the amendments include:

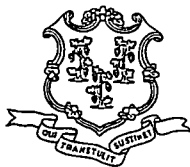
- Requirement to report "enterprise risk" - an activity, circumstance, event or series of events involving one or more affiliates of an insurer that is likely to have a material adverse effect on the financial condition of the insurer or the insurance holding company system.
- Provision for participation in a supervisory college with other regulators for supervision of a domestic insurer that is part of an insurance holding company system with international operations.
- Additional required statements in a registration filing that the insurer's board of directors oversees corporate governance and internal controls and that senior management has approved, implemented and maintained such governance and controls.
- Expansion of an insurance regulator's scope of authority to include the power to (1) order an insurer to produce for examination documents or information to which the insurer can obtain

access pursuant to contractual relationships and (2) compel production, including by issuing subpoenas, administering oaths and examining persons under oath to determine compliance.

- Changes to confidentiality standards, including additional permissive sharing by an insurance regulator with other regulators of filed information concerning an insurer or holding company system, subject to limitations intended to ensure that information shared with other regulators or with the NAIC will remain confidential and privileged and will not be subject to disclosure or subpoena, or subject to discovery or admissible in evidence in any private civil action.

While PCI supports this bill, we have concerns relative to the effective date. Particularly regarding the enterprise reporting requirements, PCI would urge that the effective date be delayed until July 1, 2013 so that companies have sufficient time to comply with these requirements.

For the foregoing reasons, PCI urges your Committee to favorably advance S.B. 411.



STATE OF CONNECTICUT
INSURANCE DEPARTMENT

6/1

Testimony of Insurance Commissioner Thomas B. Leonardi

Before
The Insurance and Real Estate Committee

March 13, 2012

**Raised Bill No. 411 - An Act Concerning the Insurance Holding Company System
Regulatory Act.**

Senator Crisco and Representative Megna, committee co-chairs, Senator Kelly and Representative Sampson, ranking members, and Members of the Committee, the Insurance Department appreciates the opportunity to submit testimony in support of Raised Bill 411. I am Thomas B. Leonardi, Insurance Commissioner of the State of Connecticut, and I would like to thank the Committee for raising this initiative on our behalf.

I am pleased to have this opportunity to testify in support of Raised Bill 411, An Act Concerning the Insurance Holding Company System Regulatory Act. It is the Department's objective to adopt a substantially similar version of the NAIC Credit for Reinsurance Model Law, both in substance and structure, and join the other states of this country in having nearly identical wording of this model law as part of a national system of state-based insurance regulation. This objective is undermined when substantial revisions occur between the language which we submit to the committee and that which is ultimately introduced in bill form.

As a bit of background, a holding company system consists of two or more affiliated persons, one or more of which is an insurance company. Of the roughly 7,800 insurance companies regulated by state insurance departments, 78% of these operate within a holding company system. In Connecticut, we have 109 domestic companies and all but one operate within a holding company system.

All states and the District of Columbia have adopted language substantially similar to the National Association of Insurance Commissioners (NAIC) *Insurance Holding Company System Regulatory Act* and its related model regulation. This is required in order for a state to comply with the NAIC Accreditation Program. The provisions in these insurance holding company laws and regulations are designed to regulate mergers and acquisitions, transactions among domestic insurers and other affiliated entities, with explicit standards to safeguard the financial security of the insurer.

In Connecticut, as elsewhere, the Insurance Holding Company Act requires annual filings with the Connecticut Insurance Department regarding the holding company system detailing intercompany contract terms and relationships. In addition, all material management agreements, service contracts and cost-sharing agreements, major reinsurance agreements, material transactions and requests for extraordinary dividends involving the domestic insurer must be filed for the Department's review. In reviewing these transactions, the Department's

approval or disapproval will be based on whether the transactions comply with the standards in the law and whether they may adversely affect the interests of policyholders.

The Holding Company Act also regulates changes of control of the domestic insurer, by requiring potential controlling owners to receive regulatory approval for changes in control. It does so by specifying minimum financial and non-financial disclosure requirements that must be filed with the Department. The Act sets forth specific criteria under which the Insurance Commissioner may deny a change of control.

State insurance regulators continuously look for opportunities to improve and strengthen insurance group supervision which sometimes results in changes to the *NAIC Model Act and Model Regulation* and the corresponding laws and regulations adopted throughout the United States.

Insurance is one segment of a broader financial services marketplace and has certain interlinkages with banks and other financial firms. The recent global financial crisis offered an opportunity to learn that the activities of non-insurance entities within a holding company system with no connection to the insurers within the group, can still have an impact on the insurers due to the problem of risk concentration in unregulated entities and the consequent contagion and reputational risk. One need only to look to what happened to AIG, when a non-insurance affiliate, through its London trading office, caused the AIG holding company to fail.

U.S. regulators and international standard setting organizations have taken steps to improve the financial services regulatory system and encourage more frequent communication and coordination among financial supervisors, including insurance regulators.

Raised Bill No. 411 makes a number of changes to the Insurance Holding Company Act to update and improve our regulatory objective of safeguarding the financial security of the domestic insurer. The proposed changes we have requested track with the newly revised *NAIC Model Act* and are appended to this testimony. We believe several of the changes will be required in the near future to be adopted in order for a state to remain accredited by the NAIC.

Among the significant changes in the proposal are:

Grants additional authority over holding company activities through the definition of enterprise risk. The Department will gain an overview of the whole group and have the ability to peer through the "window" of the holding company to see how those activities impact the insurer.

Allows for the establishment of supervisory colleges which are created by the Insurance Commissioner to assess a domestic insurer that is part of an internationally active holding company system, for review of their business strategy, financial position, risk exposure, management and governance processes.

The legislation also more closely defines the standards used in determining whether a company acquisition will lessen competition in any line of insurance or create a monopoly.

I appreciate the opportunity to testify in support of Raised Bill No. 411, and I welcome any questions you may have.

**Raised Bill No. 411 - An Act Concerning the Insurance Holding Company System
Regulatory Act.**

Summary

Section 1 adds definitions to § 38a-129 to include enterprise risk which gives the Department authority to review activities that involve affiliates to assess if risks exist that will adversely impact the financial condition or liquidity of the insurer or holding company. Currently, the Department has only risk focused authority on a "legal entity" basis. This proposal will allow us to identify risks for non-insurance related holding company activities that may impact the insurance company's solvency.

Section 2 amends the provisions of § 38a-130 on acquisition of control to include: (1) requirements for filing information with the Commissioner when a person is seeking to divest controlling interest in a domestic insurer; (2) grants authority for the Commissioner to adopt regulations to determine when an effort to divest or gain controlling interest in an insurer requires approval of the commissioner; (3) requires that the information filed under this section shall remain confidential unless the Commissioner determines that confidential treatment interferes with enforcement; and (5) requirements for proposed acquiring person to file acknowledgment that (A) it will make a good faith effort to ensure the timely filing of the annual enterprise risk report required by § 38a-135(f); (B) that such person and all subsidiaries in the insurance holding company system will provide such information the Commissioner may request to evaluate enterprise risk to the insurance company.

Section 3 amends § 38a-131 to move the existing provisions into § 38a-130 and to add new provisions for pre-acquisition notification involving insurers not covered by the Act, and standards in determining whether the acquisition will lessen competition in any line of insurance or create a monopoly. This section includes definitions of acquisition and involved insurer, defines the scope to include any acquisition in which there is a change in control of an insurer authorized to do business in this state. It also exempts certain practices and requires that the information submitted remain confidential.

Section 3 also outlines standards to be used in evaluating whether an acquisition will lessen competition or tend to create a monopoly. Standards relate to:

- When 2 or more insurers in the same market and prima facie evidence exists that the acquisition will violate competitive standards;
- When market is highly concentrated and the involved insurers possess certain defined percentages of market share;
- If market is not highly concentrated but insurers possess certain defined percentages of market share.
-

Commissioner cannot issue cease and desist order or deny the application for the acquisition if: (1) the acquisition results in substantial economies of scale and public benefit exceed those which would arise from not lessening competition; or (2) acquisition increases availability of insurance and public benefit exceeds the benefits which would arise from not lessening competition. This section also outlines the scope of the Commissioner's authority to issue a cease and desist order, what rights an insurer has under this scenario and penalties for violating cease and desist orders.

Section 4 amends § 38a-132 governing hearings and the standards of review for proposed changes of control of domestic insurers by rearranging and revising provisions related to public hearings that are held when there is a change of control of a domestic insurer. Current notice provisions remain the same with the exception of changing 14 days to 7 days for the notice of public hearing to the person filing the statement (the Department often waives this requirement since all parties are already aware of the transaction) .

Section 4 also grants the Commissioner the authority to consolidate hearings when more than one state is involved; allows other state commissioners to participate by phone or in person; and, expressly authorizes the Commissioner to retain experts at the acquiring persons expense.

Section 5 makes non-substantive technical changes to § 38a-133 governing exemptions.

Section 6 amends § 38a-135 governing registration requirements when an insurer is part of a holding company to also include:

- Audited financial statement of holding company system and all affiliates;
- Statements that the board of directors oversee corporate governance and internal controls;
- Statements that senior management approve, maintain and oversee corporate governance and internal control procedures; and
- Any other information required by Commissioner outlined in regulation.

Section 6 also requires the insurer to file an "enterprise risk" report which should identify any material risks within the holding company that would pose a risk to the insurer.

Finally, Section 6 grants the commissioner the authority to participate in supervisory colleges, which are established to assess the business strategy, financial position, legal/regulatory position, risk exposure and risk management/governance processes of individual insurers. It clarifies membership and participation, the functions of the colleges and the role of commissioners, outlines parameters for the coordination of on-going activities and allows for the establishment of a crisis management plan. All expenses of the supervisory colleges are at the insurer's expense.

Section 7 amends § 38a-136 governing standards and management of an insurer within a holding company system to also include:

- Agreement for cost sharing and management services which will be identified by regulation (we currently track cost sharing arrangement but this new language gives us broad authority to identify all cost sharing services);

- Amendments or modifications to affiliate agreements previously filed, subject to materiality standards, along with reasons for the change and the financial impact on the domestic insurer (we currently require this but this new language strengthens our ability to require this);
- Reinsurance pooling arrangements (we currently require this but this new language strengthens our ability to require this);
- Guarantees made by domestic insurers (guarantees are currently addressed in the law § 38a-136(b)(1)), but new language is added to clarify the governing standard;
- Direct/indirect acquisitions or investments which exceed specified threshold (exceeding 2 ½% of insurers surplus to policyholders).

Section 8 amends 38a-137 governing confidential treatment of information provided under 38a-14a (examination of the financial condition of a company); 38a-135 (registration of holding company); and, 38a-136 (transactions between insurance companies and their affiliates). Currently, such information is confidential and is not subject to subpoena. This section expands the Department's authority to maintain documents as confidential to expressly provide that the confidential information shall also not be subject to discovery; or admissible in any civil action. The Commissioner is granted additional authority to use these documents for regulatory and legal actions. Section 8 protects Commissioner or others who have received confidential documents from having to testify in any private civil action.

Section 8 also authorizes the Commissioner to share confidential insurance holding company act information with state, federal and international regulatory and law enforcement officials, the NAIC, the Federal Insurance Office, and members or participants of a supervisory college, as well as to receive and maintain confidential information from such entities.

Section 8 authorizes the Commissioner to enter into written agreements with the NAIC governing the sharing and use of information, documents, materials shared or received pursuant to the insurance holding company act, subject to specified requirements.

Section 9 makes a technical amendment to § 38a-138 authorizing regulations.

Section 10 grants additional authority to the Commissioner when insurers violate the statutes which govern acquisition of controlling interest that prevent the understanding of the enterprise risk to the insurer. If violations occur, they may serve as a basis for disapproving dividends or distributions and for placing the insurer under an order of supervision.

Section 11 amends § 38a-41a to expand the Commissioner's authority to examine insurers that are registered under 38a-135 (registration of insurance holding company members) and its affiliates as to the financial condition of the insurer including the enterprise risk to the insurer. Section 11 also grants authority to the Commissioner to order insurers registered under 38a-135 to produce information not in their possession but that can be obtained through contracts, statutes or other methods. If an insurer cannot produce, it must provide detailed explanation.



Testimony of the American Council of Life Insurers
 Before the Insurance and Real Estate Committee
 Tuesday, March 13, 2012

FTR

Senate Bill 411 – An Act Concerning the Insurance Holding Company System Regulatory Act

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the American Council of Life Insurers (ACLI) appreciates the opportunity to offer the following comments on Senate Bill 411 – An Act Concerning the Insurance Holding Company System Regulatory Act.

The legislation before you today is based upon the National Association of Insurance Commissioners' ("NAIC") Holding Company System Model Act. The Holding Company System Model Act is part of a broad plan to update and enhance the current framework under which insurance groups are supervised. These supervisory changes are being made through a number of interrelated projects being undertaken by a diverse group of regulators.

The Holding Company System Model Act revision process was a collaborative effort between regulators and industry with much give and take between regulators and the regulated industry. We appreciate the work that the Connecticut Insurance Department contributed to the development of the Model. The result is the legislation before you, which significantly updates the Insurance Holding Company Systems statutes in Connecticut.

Work continues at the NAIC on projects that are closely tied to new enterprise risk reporting requirements in the Act and new Form F in the Annual Registration Statement, in particular the NAIC's U.S. Own Risk and Solvency Assessment proposal and related group capital assessment proposal.

Because the new enterprise risk report required in the revised law must be submitted to a lead state, the requirement must go into effect consistently in each state where an insurer operates. Thus we request that the reporting requirements in Section 6(f) (lines 686-713) become effective July 1, 2013, to ensure that consistent reporting requirements and consistent and comprehensive confidentiality protections of the new model law are in place before enactment. Both are critical concerns of ACLI. We have asked for and received similar effective dates in the other states in which the Holding Company Model has passed.

We are continuing to review the changes from the Model which occurred in the drafting process and look forward to working with you to address these and other concerns with the legislation.

Thank you for considering our position on Senate Bill 411 regarding revisions to the holding company system statutes. Please contact John Larkin at 860-430-5928 or Kate Kiernan at 202-624-2463 or katekiernan@acll.com with questions.

ACLI is a national trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 237 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.

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FTR

Testimony of the American Council of Life Insurers
 Before the Committee on Insurance and Real Estate
 Tuesday, March 13, 2012

**House Bill 5484 - AN ACT CONCERNING CREDIT ALLOWED A DOMESTIC CEDING
 INSURER FOR REINSURANCE**

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the American Council of Life Insurers (ACLI) appreciates the opportunity to offer the following comments in support of **House Bill 5484 - AN ACT CONCERNING CREDIT ALLOWED A DOMESTIC CEDING INSURER FOR REINSURANCE**. ACLI is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 242 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.

The American Council of Life Insurers respectfully submits the following statement in support of the Connecticut Insurance Department's credit for reinsurance legislation, **HB 5484**. The proposed bill would grant discretion to the Insurance Commissioner to allow domestic insurers to take credit for reinsurance purchased from reinsurers that the Commissioner determines meet certain eligibility criteria.

The provisions of the legislation are an important and much needed update to Connecticut law and provide incentives to financially sound reinsurers to do business in Connecticut. Further, the legislation is critical to Connecticut's role in the insurance regulatory modernization debate both at the federal level and internationally.

Additionally, the legislation positions Connecticut as a proactive participant in both the federal and international regulatory insurance modernization debate. Both the EU and the U.S. federal government are looking critically at the current insurance regulatory landscape. One issue that is consistently raised in the debate is the application of state collateral requirements. By enacting the Insurance Department's proposed legislation, Connecticut is demonstrating the ability of the state-based insurance regulatory system to address international insurance issues.

Connecticut's adoption of **House Bill 5484** will be beneficial to both residents and business in the state. The ACLI encourages members of the legislature to pass this important legislation.

Thank you for your consideration of our position. Please contact John Larkin at (860) 508-9924 or Kate Kiernan at (202) 624-2463 with any questions.

S - 639

**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2012**

**VOL. 55
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cah/med/gbr
SENATE

133
April 18, 2012

If there's no objection, I'd move this item to the Consent Calendar.

THE CHAIR:

Is there objection? Is there objection?

· Mr. Clerk --

Will anybody remark on the bill?

If not, Mr. Clerk please announce the pendency of a roll call vote. The machine will be open.

THE CLERK:

Immediate roll call has been ordered in the Senate.
Senators please return to the chamber. Immediate roll call has been ordered in the Senate.

THE CHAIR:

Have all members voted? If all members have voted, the machine will be locked. The Clerk will announce the tally.

THE CLERK:

Senate Bill Number 214.	
Total Number Voting	35
Necessary for Passage	18
Those voting Yea	32
Those voting Nay	3
Those absent and not voting	1

THE CHAIR:

The bill passes.

Mr. Clerk.

THE CLERK:

On page 9, Calendar 226, Substitute Senate Bill Number 411, AN ACT CONCERNING THE INSURANCE HOLDING COMPANY SYSTEM REGULATORY ACT, favorable report of the committee on Insurance.

cah/med/gbr
SENATE

134
April 18, 2012

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President.

Mr. President, I move for acceptance of the joint committees' favorable report and passage of the bill.

THE CHAIR:

On acceptance and passage, will you remark?

SENATOR CRISCO:

Yes, Mr. President.

Mr. President, the Clerk has an Amendment, LCO 3186. I request that it be called and permission to summarize.

THE CHAIR:

Mr. Clerk.

THE CLERK:

LCO Number 3186 Senate "A" offered by Senator Crisco and Representative Megna.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President.

Mr. President, I move its adoption.

THE CHAIR:

On adoption, will you remark, sir?

cah/med/gbr
SENATE

135
April 18, 2012

SENATOR CRISCO:

Yes. This is an amendment that is really technical in nature. The changes are needed to conform to the NAIC, the National Association of Insurance Commissioners model law, and I urge its adoption.

THE CHAIR:

Thank you, Senator.

Will you remark further on the bill? Will you remark further on the bill?

Senator Crisco.

SENATOR CRISCO:

-- on the amendment.

THE CHAIR:

I'm sorry -- on the amendment.

Will you remark further on the amendment? Will you remark further on the amendment?

If not, I'll try your minds. All those in favor please signify by saying aye.

SENATORS:

Aye.

THE CHAIR:

Those opposed, nay.

The ayes have it.

Senate "A" is adopted.

Senator Crisco.

SENATOR CRISCO:

Yes, Mr. President.

cah/med/gbr
SENATE

136
April 18, 2012

First, let me compliment Commissioner Leonardi and the staff for bringing forth this legislation. It really indicates his concern and responsibility for some of the impacts upon insurance industry, particularly AIG. This bill really addresses the issue of holding companies that are predominant throughout our country. And, also, there are roughly 7 to 800 insurance companies that are regulated by insurance departments about 80 percent, 80 percent of these companies operate within a holding company system.

In fact, in Connecticut out of 109 domestic companies, all but one, you know, are within a holding company system. And historically, one only needs to look at the demise of AIG. When one of their small products group operating out of London -- which was not regulated by the Insurance Department -- got involved in what we know as credit default swaps, which had a domino impact not only upon AIG but also upon -- also upon our economy.

In the aftermath of that the NAIC has been reviewing the current Holding Company Act and recognize the need to modernize the act to give insurance departments throughout the country the added authority and scope needed to effectively regulate this ever-changing global financial economy. There really is, definitely, a Hallmark of our Insurance Department to address this issue.

THE CHAIR:

Thank you, Senator.

Will you remark further on the bill, as amended?

Senator McKinney.

SENATOR MCKINNEY:

Thank you.

Mr. President, in screening -- I have to say no objection nor did anyone on our side to this bill, but in hearing the explanation from Senator Crisco, I -- I

cah/med/gbr
SENATE

137
April 18, 2012

actually have now a couple of questions, if I could?
Through you.

THE CHAIR:

Please proceed, sir.

SENATOR MCKINNEY:

Senator Crisco, you know, as I look back, you mentioned AIG a lot. As I look back at AIG, their insurance business was very stable and profitable even after the collapse. It was their -- their financial products division that caused the collapse of AIG. So my question, through you, Mr. President, are we giving the Insurance Department authority to regulate a noninsurance-related business? Through you.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you, to the Republican Leader, no.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you.

And -- and, through you, then, are we requiring companies like -- well, strike that, Mr. President.
Through you.

Under current law, is AIG required to give information to the Connecticut Insurance Department about businesses that are not insurance businesses? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

cah/med/gbr
SENATE

138
April 18, 2012

SENATOR CRISCO:

Mr. President, according to my knowledge, no.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you, Senator Crisco.

So, then, through you, does this bill -- would this bill then require a company, like AIG, to provide our Insurance Department with information about its noninsurance-related businesses? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you to the Republican Leader.

According to my knowledge, no.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Okay. So I'm not sure what we're doing here. It -- it looks like a fine bill, but the explanation was this bill would protect us and prepare us from the AIG collapse. Yet, under current law, we can't get any information about AIG's financial products division to our Insurance Department, nor can they regulate them. That makes sense. And after we pass this, we're not giving our Insurance Department any information about noninsurance-related businesses or any powers to regulate them. That makes sense.

cah/med/gbr
SENATE

139
April 18, 2012

I'm just -- I guess I'm confused as to the connection between this bill passing and us protecting ourselves from a future AIG.

Through you, Mr. President, if Senator Crisco could perhaps explain to me how the passage of this would prevent or give us protection against AIG from happening again. Through you.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President.

Through you, to the Republican Leader.

The bill is intended to provide the necessary tools to the Insurance Department to try to prevent such an event. There is under the NAIC a structure -- a system in regards to -- what we call supervisory colleges that will look at the insurance industry and come up with recommendations when there is a situation where a company that is a holding company is either merging with an insurance company or looking at a merger to make sure that there's not a monopoly created and to maintain to make sure that there's competition in the insurance industry.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Okay. And I appreciate that answer and that -- that helps me. As my reading of the bill I -- I read about the increase review for monopoly, that's good. I'm very supportive of that.

And in terms of mergers, obviously, we want closer review on mergers. I'm familiar with that, but as I understand it, AIG, as an insurance company, started its own financial products division, so there's no issue of monopolies because it wasn't an insurance

cah/med/gbr
SENATE

140
April 18, 2012

company that brought AIG down. There was no merger to worry about. And after AIG had to get an extraordinary amount -- actually, Mr. President, you may know as chair of the Banks Committee, I think it was 84 to 100 billion dollars from the taxpayers of our nation as a bailout, the assets of AIG that were valuable were the insurance company assets because their insurance company was still doing very well.

Now, there's no doubt that the collapse of the financial products division threatened the insurance company. There's no doubt that policyholders with AIG probably tried to get quickly out of their policies to get into another company because they didn't know if AIG would be around. But I just -- I don't see anything in this bill that gives our Insurance Department information about other businesses that insurance companies are involved in, or the regulatory authority to, say, stop a merger between an insurance company and a financial institution for fear that the financial institutions' future failings may impact the insurance company. Are we trying to do that? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President.

Through you, to the Republican Leader.

Let me just summarize, first, the proposal grants additional authority over holding company activities through the definition of "enterprise risk." The Department will gain an overview of the entire group and have the ability to look through the windows of the holding company to see how all of these activities impact the insurer.

Secondly, allows for, as I mentioned previously, the establishment of supervisory colleges, which are created by the commissioner to assess domestic insurer that is part of an internationally active holding company system for review of their business strategy,

cah/med/gbr
SENATE

141
April 18, 2012

financial position, risk exposure, asset and liability matching, liquidity, capital equity, and the company's management and governance process.

And, as I mentioned previously, the supervisory college, under the NAIC, is a group of all the -- of the commissioners from throughout the country.

SENATOR MCKINNEY:

Thank you --

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you, Senator Crisco.

Just a couple more questions, and I do appreciate your answers and your patience.

So a holding company, obviously, is one company that -- that has many companies underneath it. One of those companies could be an insurance company; one of those companies could be something else. Are -- are we now saying that the commissioner in the Department of Insurance, in Connecticut, in reviewing an insurance company -- maybe it's Travelers, maybe it's Aetna -- that they can look at the other businesses that the holding company that owns a Travelers or an Aetna is involved in and make decisions whether they can buy a new business or to regulate the other business or what impact they may have in terms of regulating the insurance company if they're fearful that they own another business that is risky, say, a company, a hedge fund or a company engaged in derivative trading or something along those lines. Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

cah/med/gbr
SENATE

142
April 18, 2012

Mr. President, through you, to the Republican Leader,
yes.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you.

And so, then, for example, if a holding company, which owned an insurance company wanted to buy a financial institution and our insurance commissioner and department believed that that financial institution was a risky business, lacked liquidity, didn't have good assets on the books, maybe they owned a lot of bad debt. Could the Insurance Department step in and oppose the holding company's purchase of that company for belief that it could put at risk the insureds insured by the insurance company. Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you, to the Republican Leader.

According to my knowledge, the insurance commissioner will look at only the impact upon the insurance company, and I don't believe the insurance commissioner would have the authority to prevent the holding company from owning another financial institution.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you.

cah/med/gbr
SENATE

143
April 18, 2012

And so when we say look -- when we say look at the impact of that, I guess the question, Mr. President would be if he looks at the impact and determines that it's a bad impact, what -- what can he do? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you, to the Republican Leader.

I -- I believe that he could then initiate the authority on the powers that he has today in regards to the insurance company, not to the holding company.

THE CHAIR:

Senator McKinney.

SENATOR CRISCO:

Excuse me, Mr. President, through you, to the Republican Leader.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

The Republican Leader is, I believe, is aware that are periodic audits of different insurance companies, and I believe that this could have a significant impact upon that audit of the insurance company.

THE CHAIR:

Senator McKinney.

SENATOR MCKINNEY:

Thank you.

cah/med/gbr
SENATE

144
April 18, 2012

And -- and -- and I guess I -- I'm still trying to figure what the next step for the information is, but I think your -- your point is well-taken. That the commissioner -- what you've -- what you've just told me is that the commissioner has authority and jurisdiction over the insurance company; and that insurance company may be in some instances, in many, is owned by a holding company; that our commissioner and our state insurance department does not have authority to affect what that holding company does and other companies or businesses or interests the holding gets involved in, but if they believed that an insurance company was at risk because of other businesses owned by the same holding company, what would -- what powers would they have to avail themselves of? Do they have regulatory powers to inquire the insurance company to -- to do other things, put extra money up for to cover the insured or -- or those types of protections? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you, to the Republican Leader.

He has answered the question. The commission does have authority over the reserves of the insurance company, may require, you know, increased reserves for the company and whatever other authority that he has to make sure that the insurance company is solvent in the State of Connecticut.

SENATOR MCKINNEY:

Thank you.

Senator Crisco, it took me awhile to where I wanted to go probably because I didn't ask the right questions earlier but thank you for answers that was the answer I was looking for.

Thank you.

cah/med/gbr
SENATE

145
April 18, 2012

THE CHAIR:

Thank you, Senator.

Will you remark further on the bill?

SENATOR CRISCO:

Just -- Mr. President --

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Through you, to the Republican Leader.

It's just a very complicated. And I commend the Republican Leader for asking these questions because it is, as I mentioned earlier, really a hallmark legislation in regards to the responsibility of the insurance commissioner. And I want to be redundant in commending him and his staff for taking, you know, this first initiative.

THE CHAIR:

Thank you, Senator.

Will you remark further on the bill as amended? Will you remark further on the bill as amended?

Senator Crisco.

SENATOR CRISCO:

Mr. President, if there's no objection, I ask it to be placed on the Consent Calendar.

THE CHAIR:

Seeing and hearing no objection, so ordered.

Senate will stand at ease.

(Chamber at ease.)

cah/med/gbr
SENATE

237
April 18, 2012

Madam President, if we might call now to have the Clerk read the items on the Consent Calendar and then to move to a vote on the Consent Calendar.

THE CHAIR:

Mr. Clerk, will you please read the items on the Consent Calendar.

THE CLERK:

On page 1, Calendar 300, House Joint Resolution Number 78; page 1, Calendar 301, House Joint Resolution Number 79.

Page 2 Calendar 302, House Joint Resolution Number 80; page 2, Senate Bill -- Calendar Number 64, Senate Bill 37.

Page 3, Calendar 89, Senate Bill 56.

Page 4, Calendar 110, Senate Bill 184; page 4, Calendar 91, Senate Bill Number 276.

Page 5, Calendar 127, Senate Bill 320.

Page 8, Calendar 203, Senate Bill 408.

Page 9, Calendar 226, Senate Bill 411; also, on page 9, Calendar 224, Senate Bill Number 339.

Page 10, Calendar 232, Senate Bill Number 186.

On page 11, Calendar 238, House Bill 5250.

On page 12, Calendar 258, Senate Bill 340; also on page 12, Calendar 259, Senate Bill 157; page 12, Calendar 265, Senate Bill 176.

Page 13, Calendar 271, Senate Bill 350; page 13, Calendar 273, Senate Bill 293; page 13, Calendar 274, Senate Bill 294.

Page 14, Calendar 285, Senate Bill 404.

Page 15, Calendar 296, Senate Bill Number 307.

cah/med/gbr
SENATE

238
April 18, 2012

And page 24, Calendar 132, Senate Bill 337.

THE CHAIR:

The Senate will stand at ease for a second.

(Chamber at ease.)

THE CHAIR:

Okay. Those are the items listed. The machine will be open.

Mr. Clerk, will you please call for a roll call vote on the Consent Calendar. Thank you.

THE CLERK:

Immediate roll call has been ordered in the Senate.
Senators please return to the chamber. Immediate roll call has been ordered in the Senate.

THE CHAIR:

Have all members voted? If all members voted, the machine will be locked.

And Mr. Clerk, will you please call the tally.

THE CLERK:

On today's Consent Calendar.

Total Number Voting	35
Necessary for passage	19
Those voting Yea	35
Those voting Nay	0
Those absent and not voting	1

THE CHAIR:

Consent Calendar has passed.

Senator Looney.

SENATOR LOONEY.