

Legislative History for Connecticut Act

PA 14-107

SB194

House	6959-6962	4
Senate	2225-2227, 2343-2344	5
Insurance	217, 240-242, 244-246, <u>256-257, 273-276</u>	13
		22

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**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
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Those absent and not voting 6

DEPUTY SPEAKER GODFREY:

The bill, as amended, is passed.

Representative Aresimowicz.

REP. ARESIMOWICZ (30th):

Thank you very much, Mr. Speaker.

Mr. Speaker, I move that we immediately transmit to the Senate any items waiting further action.

DEPUTY SPEAKER GODFREY:

Without objection, so ordered.

Representative Aresimowicz, I understand we have another Consent Calendar.

REP. ARESIMOWICZ (30th):

Thank you very much, Mr. Speaker.

We are. We are about to list off the bills that will be included in our second Consent Calendar for the evening, sir.

DEPUTY SPEAKER GODFREY:

Proceed, sir.

REP. ARESIMOWICZ (30th):

Thank you very much, Mr. Speaker.

I move -- I'd to add the following to the Consent Calendar. Calendar 426, Calendar 308, Calendar 438, Calendar 488 --

SB281

SB19

SB182

SB330

DEPUTY SPEAKER GODFREY:

Whoa, whoa, whoa.

REP. ARESIMOWICZ (30th):

I apologize, Mr. Speaker. The first number was
427.

DEPUTY SPEAKER GODFREY:

So 427, thank you, sir. Proceed.

REP. ARESIMOWICZ (30th):

Calendar 476, as amended by Senate "A"; Calendar
445, Calendar 514, Calendar 505, as amended by Senate
"A"; Calendar 455, Calendar 456, as amended by Senate
"A"; Calendar 322, Calendar 536, as amended by Senate
"A" and Senate "B"; Calendar 430, Calendar 520, as
amended by Senate "A" and Senate "B"; Calendar 538, as
amended by Senate "A"; Calendar 424, as amended by
Senate "A"; Calendar 439, as amended by Senate "A";
Calendar 482, as amended by Senate "A"; Calendar 325,
as amended by Senate "A."

Calendar 526, as amended by Senate "A"; Calendar
509, as amended by Senate "A"; Calendar 532, Calendar
502, as amended by Senate "A"; Calendar 421, as
amended by Senate "A"; Calendar 431, as amended by
Senate "A"; and Calendar 539, as amended by Senate
"A."

- SB 194
- SB 402
- SB 324
- SB 45
- SB 221
- SB 257
- SB 201
- SB 389
- SB 418
- SB 438
- SB 427
- SB 260
- SB 208
- SB 424
- SB 241
- SB 14
- SB 106
- SB 322
- SB 410
- SB 217
- SB 477
- SB 429

DEPUTY SPEAKER GODFREY:

Is there objection to any of these items being placed on the Consent Calendar? If not, Representative Aresimowicz, would you like to move passage of the Consent Calendar?

REP. ARESIMOWICZ (30th):

Mr. Speaker, I want to remove Calendar 539.

SB429

DEPUTY SPEAKER GODFREY:

Please remove Calendar 539, Mr. Clerk.

REP. ARESIMOWICZ (30th):

Mr. Speaker, I move passage of the bills on the second Consent Calendar of the day.

DEPUTY SPEAKER GODFREY:

The question is on passage of the items on Consent Calendar Number 2.

Staff and guests please come to the well of the House. Members take your seats. The machine will be open.

THE CLERK:

The House of Representatives is voting by roll.

The House of Representatives is voting by roll on the second Consent Calendar of the day, House Consent 2. Please report to the Chamber immediately.

DEPUTY SPEAKER GODFREY:

Have all the members voted? Have all the members
voted?

If all the members have voted, the machine will
be locked.

The Clerk will take a tally.

And the Clerk will announce the tally.

THE CLERK:

Consent Calendar Number 2.

Total Number Voting 147

Necessary for Passage 74

Those voting Yea 147

Those voting Nay 0

Those absent and not voting 4

DEPUTY SPEAKER GODFREY:

The items on the Consent Calendar are passed.

(Speaker Sharkey in the Chair.)

SPEAKER SHARKEY:

The House will please come back to order.

Will the Clerk please call Emergency Certified
Bill 5597.

THE CLERK:

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Thank you, Madam President.

THE CHAIR:

Mr. Clerk.

Thank you, sir.

THE CLERK:

On page 40, Calendar 271, Substitute for Senate
Bill Number 194, AN ACT CONCERNING RISK
MANAGEMENT AND OWN RISK AND SOLVENCY ASSESSMENTS
FOR DOMESTIC INSURERS, favorable report of the
Committee on Insurance and Real Estate.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Madam President.

Madam President, I move for acceptance of the
joint committee's favorable report and passage of
the bill.

THE CHAIR:

The motion is on acceptance and passage. Will
you remark, sir?

SENATOR CRISCO:

Yes, Madam President.

This bill is known as the ORSA bill and the
purpose of the act is to provide the requirement
for insurers or insurance groups to maintain a
risk management framework and to complete an
annual own risk and solvency assessment known as
an ORSA, O-R-S-A. The proposal is based on the
model law, developed by the National Association
of Insurance Commissioners and will provide
guidance and instructions to insurers or

insurance groups relating to filing an ORSA report with our insurance commissioner. The Insurance Department works very closely with domestic insurance, insurers on this legislative proposal and this proposal is a product of that work. NAIC, the National Association of Insurance Commissioners, will required insurance departments to have the ORSA law adopted and effective in their respective states no later than January of 2018 to meet NAIC accreditation

requirements, and let me repeat that, accreditation requirements. It needs to have an effective --commencing in January 2015 to enable both the Insurance Department and the insurance industry time to fully implement the reporting process. It also continues with the changes to the Holding Company Act and Enterprise Risk Managing reporting adopted by the legislature in recent years. ORSA will further improve the insurance regulatory system by requiring insurers and insurance groups to conduct enterprise risk management assessments in a more structured environment and then communicate and discuss with their insurance regulators relating to how to manage or minimalize the identified risk in a continuous to build the ability of the Insurance Department to be a strong and effective financial regulator and to retain our place as a number one insurance state in the country.

THE CHAIR:

Will you remark? Will you remark?

Senator Kelly.

SENATOR KELLY:

Thank you, Madam President.

And I rise in support of the bill. This is a -- a good model act that's devised predominantly to enable the insurance industry to evaluate and do a self-assessment with regards to their adequacy of their insured risk. I think this is something that is very good and it's an enhancement already

to our insurance industry and I stand in support
of the bill. Thank you.

THE CHAIR:

Thank you.

Will you remark? Will you remark?

If not, Senator Crisco.

SENATOR CRISCO:

Thank you, Madam President.

Always I -- so I always support the support and
input from Senator Kelly, and if there's no
objection, I request be placed on the Consent
Calendar.

THE CHAIR:

Seeing no objection, so ordered, sir.

Senator Looney.

SENATOR LOONEY:

Thank you, Madam President.

Madam President, had a request to remove an item
from the Consent Calendar. If we might proceed
to a -- a roll call on the previously considered
bill that was calendar page 4, Calendar 234,
Senate Bill 196, if we might move to a roll call
on that item --

THE CHAIR:

Mr. Clerk.

SENATOR LOONEY:

-- rather than having it be on the Consent
Calendar.

THE CHAIR:

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THE CHAIR:

Senator McLachlan.

SENATOR MCLACHLAN:

Thank you, Madam President.

THE CHAIR:

Oops, I'm sorry, Senator McLachlan.

Senator Looney, why do you stand, sir?

SENATOR LOONEY:

Thank you, Madam President.

If this item might be passed temporarily. We will return to it shortly but first would ask the Clerk to read the items on the Consent Calendar so that we might proceed to a vote on the Consent Calendar.

THE CHAIR:

Mr. Clerk.

THE CLERK:

On today's Consent Calendar, page 4, Calendar 292, Senate Bill 438; on page 7, Calendar 335, House Bill 5149.

On page 12, Calendar 392, Senate Bill 261; Calendar 400, Senate Bill 155; Calendar 409, Senate Bill 491.

And on page 33, Calendar 45, Senate Bill 14.

On page 34, Calendar 130, Senate Bill 45; also on page 34, Calendar 133, Senate Bill 179; Calendar 100, Senate Bill 55.

On page 37, Calendar 195, Senate Bill 61; page 40, Calendar 271, Senate Bill 194; and on page 41, Calendar 285, Senate Bill 464.

lgg/rd/cd
SENATE

182
May 2, 2014

THE CHAIR:

Mr. Clerk, will you call for a roll call vote on the Consent Calendar. The machine is open.

THE CLERK:

Immediate roll call has been ordered in the Senate. Immediate roll call on the first Consent Calendar for the day has been ordered in the Senate.

THE CHAIR:

Have all members voted? All members voted. The machine will be closed.

Mr. Clerk, will you please call a tally on the first Consent Calendar?

THE CLERK:

On today's first Consent Calendar.

Total Number Voting	35
Necessary for Adoption	18
Those voting Yea	35
Those voting Nay	0
Those absent and not voting	1

THE CHAIR:

The Consent Calendar passes.

Senator Looney, shall we return to page 42?

SENATOR LOONEY:

Madam President.

THE CHAIR:

**JOINT
STANDING
COMMITTEE
HEARINGS**

**INSURANCE AND
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With that, we'll commence the public hearing. First up will be Legislators, agency heads, then the municipalities.

And I would like to welcome Commissioner Leonardi, and you have the floor, sir.

HB 5053
SB 199
SB 189
SB 188
SB 185
SB 194
HB 5254

COMMISSIONER THOMAS B. LEONARDI:

Thank you, so much.

Senator Crisco and Representative Megna, members of the committee, thank you. It's always a pleasure to be here.

We have a number of bills to be heard this morning or this afternoon, I guess it is now. What I wanted to do was to talk about some of them but not necessarily all of them. I was going to not go beyond our written testimony on the third-party administrators, the bail bonds, and the guaranty association. But I would like to touch on, in some cases, briefly; in other cases, a little bit more in detail, on the other bills in the order that -- that you have them listed.

And if it's okay with the committee, what I'd like to do is maybe talk about each bill separately and leave time for questions at the end of each and then move on. So the first one I'd like to -- and -- and, again, I'm not going to be reading a speech and I'm not going to be rehashing the written; you've already got that. And I'm obviously happy to take any questions to clarify.

Some of these are obviously somewhat complicated, even for people in the insurance industry, so if there, if there are any questions for clarification, please let me

point, after all of those years I think suggests that there's a, there's a lot here that, that's good to talk about.

REP. MEGNA: Okay; thank you.

Any questions? No?

Continue on, Commissioner, please.

COMMISSIONER THOMAS B. LEONARDI: Thank you.

The next two, I think they're the last two I'm going to speak about, so I'll be very brief. One is ORSA and the other is group-wide supervision, which is kind of a, an amendment to the model Holding Company Act that you passed a couple years ago. The ORSA stands for Own Risk Solvency Assessment, and basically it's, both of these bills come out of the outcome of dealing with the financial crisis.

SB194
HB 5254

SB194

And -- and AIG is a very different company today than it was back in 2008, so I -- I hate to use it as an example because the company is doing some very good things today, but back in 2008, as we all know, they had a financial products group in London that wasn't regulated by any insurance regulator here or in the UK. The Office of Thrift Supervision, a federal entity, was regulating it or not regulating it, as the case may be, and it created all of these credit default swaps that ultimately helped to bring the company down.

So group-wide supervision and ORSA are two ways of getting to how do you see a full picture of this conglomerate and make sure you're watching all the different parts that are going on or at least some regulator is watching all those pieces and that the regulators are

communicating and understanding what those risks are and can, what those risks could mean in various scenarios.

So the Own Risk Solvency Assessment is a, is an assessment as it sounds like; the company is doing its own risk. It looks at its business. If it's, if it runs its business, you know, on a line-of-business basis, then its ORSA will be put in that way. If it's based on a corporate entity, it will do it that way, which is how ours differs from the one in Europe.

But basically, you then take a look at, you work with the company. And it'll deal with things like credit risk, catastrophe risk, liquidity issues, solvency, reinsurance, product; it should look at everything, so its, in talking about trade secrets, these are very, very significant trade secret competitive advantages. But it's how the company looks at its entire enterprise risk.

And so the ORSA has been adopted by the NAIC; it is now an accreditation requirement. This means any state that doesn't have it in place by 2018, runs the risk of losing its accreditation, which of course would be a nightmare for us as the insurance capital. -- but for any state -- but particularly for a state that regulates a large industry.

The reason we'd like to get this done now is that would be in effect in January of next year, which would give us and the industry a couple of years to work through the ORSAs and -- and be able to be ready to go in 2018.

Now, there is an ORSA pilot. There was an ORSA pilot last year, and I believe we had one or two of our companies that participated in that.

And there's another pilot this year, and I believe a couple of other Connecticut-based companies will be participating in that. So there's been a lot of support. And again, this is one of those bills that has a lot of input from the department, from the industry, from the LCO, and I think that we're -- and hopefully that it's in good shape and you'll find that it's in good shape to move forward on.

There's, as I mentioned, a key confidentiality provision that's similar to the model act for the reasons, the kind of data that you have here. And we also will look on their, on their computer models to see under different stress scenarios what would happen in the event of a, you know, 50 percent drop in the stock market or a 500 basis point increase in -- in the bond market and the different kinds of things, what happen if their loss ratio, if there was five Hurricane Katrinas in the same calendar year. You know, those are the kinds of shocks you can look at and see what the implications are to a company, and, again, trying to get a feel for this entire risk.

The other piece of this is the separate bill -- which is the last one I'm going to talk about, which is 5254 -- this is the model Holding Company Act. We were, we had revisions to the model Holding Company Act at the NAIC, and those were passed here in 2012. This act goes a little bit, this, these revisions, proposed revisions go a little bit farther, in terms of delineating specifically what the group supervisor can do as the group supervisor. And Pennsylvania is the only state that passed the language in this format; nobody has followed.

Just by way of background, there's an awful lot

to do this, and I think it is, once again, it's, it may not be something that's felt by constituents here in Connecticut and even understood, but it has a significant impact internationally and -- and our, on our leadership nationally and internationally.

And ultimately all of these things are going to impact consumers as well as every company, not just the big internationally active companies, because they're all going to impact solvency and liquidity and capital and returns on equity, and -- and so that the, while it may seem somewhat out there, it's, it is a very important detail. And I -- I would ask that the committee strongly consider that as well.

REP. MEGNA: Thank you, Commissioner.

Commissioner, on the ORSA, aren't, are you empowered now to request the information from the insurers?

SB194

COMMISSIONER THOMAS B. LEONARDI: I believe we are under the model Holding Company Act, but under the ORSA provision of the NAIC model act, states are required to have that in the, something similar or equivalent of the model act to keep their accreditation. So this would be --

REP. MEGNA: Oh, okay.

COMMISSIONER THOMAS B. LEONARDI: -- a specific accreditation requirement.

REP. MEGNA: All right; thank you.

Are there any questions of the commissioner on probably any of the bills before us? They're all department bills. No? Going once, going

twice.

Representative Altobello.

REP. ALTOBELLO: Yes. Thank you, Mr. Chairman.

You have quite a few bills and they all seem very important, and I don't think they're going to garner a lot of -- I think they'll garner a lot of support -- let me put it in a positive. Being a short session and having been shut out at the gate several times myself, and I'm sure you have, and so to speak, to use a horse-racing term, I mean a betting term, any objection if we combine some of these together?

COMMISSIONER THOMAS B. LEONARDI: I don't think so; right?

A VOICE: No, not at all.

COMMISSIONER THOMAS B. LEONARDI: If you tell me you'll pass it, we can combine them all into one bill.

REP. ALTOBELLO: I can tell you that, but then you're betting that my word is good, sir.

COMMISSIONER THOMAS B. LEONARDI: Actually, I'm sure it is.

REP. ALTOBELLO: Thank you.

Thank you, Mr. Chairman.

REP. MEGNA: Representative Altobello, actually, I got the word "implementer" written down here. All right?

Are there, are there any other questions of the commissioner? No?

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mhr/gbr INSURANCE AND REAL ESTATE COMMITTEE
February 25, 2014
1:00 P.M.

Well, thank you, very much, Commissioner.

COMMISSIONER THOMAS B. LEONARDI: Well, I want to thank you and the committee for your time and attention and -- and for your support for us at the department. It's very much appreciated.

Thank you.

REP. MEGNA: Okay; we're going to continue on to the public portion of the public hearing.

Nobody signed up for 5053, so we'll move on to 199.

Bob Kehmna.

ROBERT A. KEHMNA: Thank you, Mr. Chairman, members of the committee.

For the record, by name is Bob Kehmna, from the Insurance Association of Connecticut. I'm here to offer some comments today on Senate Bill 199, AN ACT CONCERNING LONG-TERM CARE INSURANCE PREMIUM RATE INCREASES.

This committee has looked over the past couple years at the issue of the size of recent, some recent filings, rate filings concerning long-term rate insurance and expressed some concern about them. Ultimately, the Legislature has rejected legislative initiatives that would have compromised the actuarial basis of that review. We argue and continue to argue that the process should be actuarial in its basis and not be subjected to subjective information that would be counterproductive to the fair and complete review of the filing.

We don't believe any change is necessarily due

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I'd welcome any questions.

REP. MEGNA: Thank you, very much, Bob.

Are there any questions? No.

Thank you, very much, for your testimony.

ROBERT A. KEHMNA: Thank you.

REP. MEGNA: And on Bill 194, Susan Giacalone.
That's it.

SUSAN D. GIACALONE: Thank you.

Good afternoon, Representative Megna, Senator Crisco, and members of the Insurance and Real Estate Committee.

And, again, I am here to support a bill. We also support the adoption of Senate Bill 194, the, involving the own or risk, Own Risk Solvency Act. Again, we appreciate the work, hard work that was put into this bill also in the interim session between the Insurance Department and LCO. LCO did the yeoman's this summer on these two bills.

This -- as you heard from the commissioner -- I'm not going to reiterate what these bills do, but it simply provides the requirements for maintaining a risk management framework and completing the Own Risk Insolvency Investment report that would be filed with the department. It provides the strict, confidentiality provisions because these reports maintain very confidential information, proprietary information. It sets up the framework to make sure that when these reports are submitted to the department, those confidentiality

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INSURANCE AND REAL ESTATE
COMMITTEE

1:00 P.M.

provisions are protected, proprietary information, trade secrets. And, again, we ask the support of the committee in adoption of this bill.

Thank you.

REP. MEGNA: Thank you.

Are there any questions?

Thank you, very much.

SUSAN D. GIACALONE: Thank you.,

REP. MEGNA: That completed the list of everybody that signed up.

Is there anybody in here that would like to speak that hasn't on any of the bills before us? No?

If not, that'll be it.

STATEMENT**INSURANCE ASSOCIATION OF CONNECTICUT**

Insurance And Real Estate Committee

February 25, 2014

**SB 194, An Act Concerning Risk Management And Own Risk
And Solvency Assessments For Domestic Insurers**

The Insurance Association of Connecticut, IAC, supports SB 194, An Act Concerning Risk Management And Own Risk and Solvency Assessments For Domestic Insurers.

IAC supports SB 194 which adopts the National Association of Insurance Commissioners (NAIC) model for Own Risk and Solvency Assessments (ORSA) for domestic insurers.

The ORSA Model was developed by the NAIC to monitor the adequacy of insurer's risk management activities. The requirements in SB 194 will enable the Connecticut Insurance Department to assess current and likely future solvency of an insurer through the self-assessment and disclosure of reasonably foreseeable and relevant material risks. An insurer that is subject to the ORSA requirement will be expected to have a risk management framework, to regularly assess the adequacy of that risk management framework and current prospective solvency position, to internally document the process and results, and to provide an annual high-level summary report to the lead state regulator. The insurance industry worked diligently with the NAIC during the development of both the Guidance Manual and Model Law to ensure rigorous and effective requirements for the assessment of insurers risk management programs. SB 194 adopts the model and even incorporates, as other states have done, the essence of the model's drafting note that recognizes that date of filing an insurer's or insurance group's ORSA Summary Report which is based on the insurer or insurance group's timeline making its filing dependent upon such entities conducting its internal

strategic planning process, thus not requiring such entities to file such report on an arbitrary date. Adoption of the model is critical for uniformity and ease of administration.

IAC appreciates the Insurance Department and LCO's hard work to produce a bill that conforms to the model while addressing the concerns previously raised by the industry. The IAC respectfully requests this committee's adoption of SB 194.



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony to Insurance and Real Estate Committee

February 25, 2014

Raised S.B. No. 194: AN ACT CONCERNING OWN RISK AND SOLVENCY ASSESSMENTS FOR DOMESTIC INSURERS.

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department thanks the Committee for raising Senate Bill 194: An Act Concerning Own Risk and Solvency Assessments for Domestic Insurers, at the Department's request and appreciates the opportunity to provide this testimony.

This proposal is based on the model law developed by the National Association of Insurance Commissioners. In collaboration with and with the support of the insurance industry, it is the Department's objective to adopt a substantially similar version of this law both in substance and structure and join other states in having nearly identical wording of this model law as part of a national system of state-based insurance regulation.

The purpose of this Act is to provide the requirement for insurers or insurance groups to maintain a risk management framework and to complete an annual Own Risk and Solvency Assessment, known as an ORSA. This Act will provide guidance and instructions to insurers or insurance groups relating to filing an ORSA Summary Report with the Insurance Commissioner. We anticipate that the NAIC will require insurance departments to have the ORSA law adopted and effective in their respective states no later than January 2018 to meet NAIC accreditation requirements, but we are seeking to have it effective commencing in January 2015 to enable both the Insurance Department and insurance industry time to fully implement the reporting process.

In recent years, this body supported the Insurance Department's proposal to enact changes to the Holding Company Act and Enterprise Risk Management Reporting which strengthened the Department's ability to safeguard the financial security of domestic insurers. ORSA will further improve the insurance regulatory system by requiring insurers and insurance groups to conduct enterprise risk management assessments in a more structured environment and then communicate and discuss with their insurance regulators relating to how to manage or minimize the identified risks.

Among the significant aspects of the proposal are:

- The requirements for an insurer or insurance group to maintain a risk management framework to assist the insurer or insurance group with identifying, assessing, monitoring, managing and reporting on its material and relevant risks.

- The requirement to conduct an ORSA Report annually and what the report should include.
- The requirement to use the NAIC ORSA Guidance Manual to prepare the ORSA Summary Report.
- Exemption criteria from ORSA for smaller companies where ORSA may create more of a regulatory burden than benefit.
- The need to keep the ORSA Report confidential. The ORSA Summary Report will contain confidential and sensitive information related to an insurer or insurance group's identification of risks material and relevant to the insurer or insurance group filing the report. This information will include proprietary and trade secret information that has the potential for harm and competitive disadvantage to the insurer or insurance group if the information is made public. The ORSA Summary Report is solely designed to assist the Commissioner in the performance of his duty as a regulator and that in no event shall the ORSA Summary Report be subject to public disclosure.

The Department has worked collaboratively with the domestic insurers on this legislative proposal and are pleased this bill has garnered their support. The Department appreciates the opportunity to submit testimony on S.B. 194 and respectfully urges its passage. Thank you.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.