



Department of Consumer and Business Services

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Before the
House Business & Labor Committee

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HB 2241

Testimony of
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Insurance Division
Department of Consumer and Business Services

Chair Doherty and members of the committee, for the record, my name is Russell Latham. I am the Chief Examiner of the Insurance Division of the Department of Consumer and Business Services. I am here today to speak to you about House Bill 2241. This bill updates portions of Chapter 732 of the Oregon Insurance Code related to regulation of the financial affairs of Oregon insurance companies. This bill will increase consumer protection by giving the Insurance Division the tools to make sure that the cash and investments insurance companies hold in reserve to pay the claims of individuals and businesses are not inappropriately diverted to other affiliates in a holding company group. This bill also gives us additional tools to look at intercompany transactions to determine if they are appropriate, and it gives us the authority to take action if they're not.

Chapter 732 of the Oregon Insurance Code includes statutes regulating acquisitions and mergers of Oregon domestic insurance companies. These statutes also regulate insurance companies that are part of a group of companies. These insurance holding company groups can include other insurance companies as well as non-insurance entities.

The reason we need to update these laws stems from lessons learned from the financial crisis of 2008. As a result of that crisis, state insurance regulators across

the nation started to review our processes and laws to see what we could do better. The state regulators found that these statutes could be strengthened in order to avoid another AIG type of situation where the insurance companies were financially sound, but the affiliated companies nearly caused the whole financial system to collapse.

This bill includes nationally developed standards that will assist the division in maintaining its accreditation with the National Association of Insurance Commissioners (NAIC). The Oregon Insurance Division has been accredited since 1993.

House Bill 2241 does the following:

Encourages regulator to regulator cooperation and communication

- Permits the Director of Department of Consumer and Business Services to share with other states or the NAIC information related to acquisitions of insurers (Sec 2);
- Permits the director to establish or participate in supervisory colleges, or meet with insurance regulators where the topic of discussion is regulatory oversight of one specific insurance group with international operations and writes a significant amount of insurance in other jurisdictions (Sec 11).

Requires advance notice of, and authority over, acquisitions of insurance companies

- Permits the director to organize or participate in a hearing on an insurer's acquisition of an affiliated company with the chief insurance regulatory officers in other jurisdictions (Sec 4);

- Requires a person that proposes to acquire or sell an Oregon insurer to notify the director in a form provided by the director, and to wait for specified period of time, before completing acquisition (Sec. 6, 18);
- Enhances the director's authority to determine whether an acquisition will substantially diminish competition among insurers in this state or tend to create monopoly (Sec. 5 & 7);
- Permits the director to assess a civil penalty if a person completes an acquisition without notifying the director and permits director to issue an order that requires person to cease and desist from transacting insurance or that denies application for certificate of authority if the director determines that acquisition will substantially diminish competition or tend to create monopoly or cause other harm to the insurance-buying public (Sec. 8);
- Specifies the information an acquiring party must submit to director in connection with an acquisition.

Increase oversight of corporate governance

- Requires an insurer in an insurance holding company system to file annual enterprise risk report (Sec. 10), which allows the regulator to assess the risk of the entire holding company system, rather than just the insurer;
- Specifies civil and criminal penalties for violating provisions of the Act (Sec 15 and 16);

- Requires affidavits that state an insurer's board of directors is responsible for corporate governance and internal controls; and the insurer's officers or senior management have approved and implemented, and continue to maintain and monitor, corporate governance and internal control procedures (Sec 23);
- Requires the board of directors to establish a committee of members who are not officers or employees of the insurer or any affiliate of the insurer to oversee audit matters, board nominations, and officer compensation and evaluation (Sec 28).

Thank you. I am happy to answer any questions you might have.