

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4862-03  
Bill No.: HCS for HB 1336  
Subject: Insurance - General; Insurance Department  
Type: Original  
Date: March 6, 2014

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Bill Summary: This proposal changes the requirements for disclosure of information regarding insurance holding companies.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Insurance Dedicated	(\$209,311)	(\$236,354)	(\$238,831)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$209,311)</b>	<b>(\$236,354)</b>	<b>(\$238,831)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Insurance Dedicated	2	2	2
<b>Total Estimated Net Effect on FTE</b>	<b>2</b>	<b>2</b>	<b>2</b>

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state that the proposal requires more extensive analysis by the insurance department and interaction with international regulators through participation and hosting of supervisory colleges. The department does not currently have staff with an understanding of advanced risk management strategies or the man-hours available to complete the in-depth review and work with the supervisory colleges.

Missouri is the lead state for 27 active holding companies that contain 45 domestic insurers. DIFP will be responsible for conducting analysis not only on an entity level but will be responsible for coordinating review of the entire holding company system. Missouri also regulates 44 insurers that are part of holding companies and Missouri will be responsible for participating and providing information to other states regarding enterprise risk management and holding company review. The new in-depth analysis and enterprise risk management review will require a full time dedicated risk management specialist.

Missouri is the lead international regulator of two international holding companies and the lead US regulator for another. Additional review work and responsibilities will be required to host and attend supervisory colleges with international regulators. The in-depth knowledge of US and international insurance accounting and regulation will require a full time examiner level specialist.

Therefore, the department is requesting 2 Insurance Examiners III with in-depth knowledge of US and international insurance accounting and regulations to review the new form F filings and coordinate, attend, monitor supervisory colleges and the information generated for and from them.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>INSURANCE DEDICATED FUND</b>			
<u>Costs - DIFP</u>			
Personal service	(\$124,958)	(\$151,450)	(\$152,964)
Fringe benefits	(\$63,735)	(\$77,247)	(\$78,019)
Equipment and Expense	<u>(\$20,618)</u>	<u>(\$7,657)</u>	<u>(\$7,848)</u>
<u>Total Costs - DIFP</u>	<u>(\$209,311)</u>	<u>(\$236,354)</u>	<u>(\$238,831)</u>
FTE Change - DIFP	2 FTE	2 FTE	2 FTE
<b>ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND</b>	<b><u>(\$209,311)</u></b>	<b><u>(\$236,354)</u></b>	<b><u>(\$238,831)</u></b>
 Estimated Net FTE Change on the Insurance Dedicated Fund	 2 FTE	 2 FTE	 2 FTE
 <u>FISCAL IMPACT - Local Government</u>	 FY 2015 (10 Mo.)	 FY 2016	 FY 2017
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal modifies the scheme regulating insurance holding companies. It adds a definition for "enterprise risk" and expands the definition of "person" to include a limited liability company and exempts venture partnerships focused on tangible personal property from the definition of "person". The proposal also increases the allowable percentage of assets that an insurance holding company may invest in subsidiaries from 5% to 10%. Currently, notice to the insurer and a filed statement to the director are required only of a person acquiring a controlling interest in a domestic insurer. This proposal requires that a person seeking to divest a controlling interest in a domestic insurer also provide notice to the insurer and a filed statement to the director.

This proposal also requires a person acquiring a controlling interest in a domestic insurer to file an agreement to file annual reports with the director and an acknowledgment that all subsidiaries

FISCAL DESCRIPTION (continued)

must provide information on request for the director to evaluate enterprise risk to the insurer. The public hearing, when required to approve the merger or acquisition, may be a consolidated hearing if approval is required by more than one State Insurance Commissioner. The director must also make a determination within 60 days of notice of change of control of a domestic insurer if the person acquiring control must restore or maintain the levels of capital of the insurer in accordance with the laws of Missouri. The acquisitions requiring approval by the director are also no longer exempt from the requirements, violations and penalties found in current law.

This proposal also expands the information required for registration of insurers to include financial statements of the insurance holding company and its affiliates upon request of the director, statements that the insurer's board of directors oversees corporate governance, and any other information required by the director by regulation. A person may be relieved of duty to register or report only if a disclaimer of affiliation is either approved by the director or deemed approved if the director does not take action on the disclaimer within 30 days of receipt of a complete disclaimer. In addition to the previously required registration and reporting requirements, the ultimate controlling person in an insurance holding company system subject to registration must file with the director an annual enterprise risk report for the insurance holding company system. Failure to file the enterprise risk statement will also be a violation of this proposal.

This proposal requires that the accounts and records of material transactions between affiliates contain accounting information to support the reasonableness of charges or fees to the respective parties. Agreements for cost sharing services and management will be controlled by rules and regulations issued by the director. Affiliates cannot enter into additional agreement types without notice to and approval of the director including: reinsurance pooling agreements, tax allocation agreements, guarantees when made by the domestic insurer with some exceptions, and some direct and indirect acquisitions in a person that controls the insurer or an affiliate of the insurer. The required notice to the director for modified affiliate agreements must include the reasons for the change and the financial impact on the insurer. Additionally the director must be notified if a domestic insurer investment causes the insurer to acquire a 10% interest in a corporation's voting securities.

This proposal also expands the powers of the director to examine any registered insurer to ascertain financial condition and enterprise risk. The director may also order an insurer to produce information not in the possession of the insurer if the insurer can obtain the information pursuant to contractual, statutory, or other means.

FISCAL DESCRIPTION (continued)

The director may assess a penalty of \$1,000 per day for delay in producing the information if the insurer does not provide the director with a detailed explanation for the inability to obtain the information that the director finds to have merit. The director is also given the power to examine affiliates of an insurer under oath and issue subpoenas if an insurer fails to comply with an order.

This proposal gives the director the power to initiate the establishment of, and participate in a supervisory college to regulate registered insurers that are part of an international insurance holding company system. Insurers subject to this requirement are liable for the reasonable expenses of the director to participate in the supervisory college.

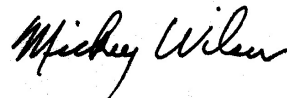
This proposal also expands the regulations of the confidentiality and privilege for information and documents provided to the director and shared with other regulatory agencies or the National Association of Insurance Commissioners in the performance of the director's duties upon written agreement that the other regulatory agencies or the National Association of Insurance Commissioners will maintain the confidentiality and privilege. The information and documents cannot be subject to discovery or subpoena in any private civil action and the director cannot be permitted or forced to testify in private civil actions.

This proposal also provides an independent basis for the director to disapprove dividends or distributions if a violation of the chapter prevents a full understanding of the enterprise risk to the insurer.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions  
and Professional Registration



Mickey Wilson, CPA  
Director  
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Ross Strobe  
Assistant Director  
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