

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0598-02
Bill No.: HCS for SB 205
Subject: Insurance - General; Insurance, Department of; Sunshine Law; Meetings and Records
Type: Original
Date: May 1, 2015

Bill Summary: This proposal changes the laws regarding the business of insurance.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Insurance Dedicated	(\$280,644)	(\$310,527)	(\$313,785)
Insurance Examination	(\$39,904)	(\$47,466)	(\$47,960)
Total Estimated Net Effect on Other State Funds	(\$320,548)	(\$357,993)	(\$361,745)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Insurance Dedicated	2.6	2.6	2.6
Insurance Examination	0.4	0.4	0.4
Total Estimated Net Effect on FTE	3	3	3

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Sections 382.010 – 382.278:

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 28 active holding companies that contain 51 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 39 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 (at \$74,975 annually) 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. DIFP estimates expense totals of at least \$213,061 in FY 16, at least \$237,889 in FY 17, and at least \$240,383 in FY18. DIFP assumes the cost will be divided between the Insurance Dedicated Fund and the Insurance Examination Fund.

Sections 382.500 – 382.550:

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** state that the own risk and solvency assessments (ORSA) filing will be quite complex and require expertise in risk management practices to properly evaluate the sufficiency of the filing. It is anticipated that 6 domestic insurance groups will have to file an ORSA directly with Missouri and 23 additional insurance groups will have to file with a lead state and be reviewed by Missouri.

ASSUMPTION (continued)

This legislation will require one FTE (Financial Examiner III at \$75,725 annually) to review and assess ORSA summary reports and the risk management framework of insurers. This will entail very technical analysis of this information which may vary by the nature and complexity of the insurer. Since this will be a highly specialized area, it will require very technical expertise. This person will also act as the primary coordinator with outside consultants used for technical assessment of actuarial stress testing, stochastic analyses and modeling and will be required to incorporate consultant's analysis and conclusions into the department's overall assessment.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
INSURANCE DEDICATED FUND			
<u>Costs - DIFP</u>			
Personal Service	(\$164,071)	(\$198,854)	(\$200,842)
Fringe Benefits	(\$83,684)	(\$101,425)	(\$102,439)
Equipment and Expenses	(\$32,889)	(\$10,248)	(\$10,504)
<u>Total Costs - DIFP</u>	<u>(\$280,644)</u>	<u>(\$310,527)</u>	<u>(\$313,785)</u>
FTE Change - DIFP	2.6 FTE	2.6 FTE	2.6 FTE
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(\$280,644)</u>	<u>(\$310,527)</u>	<u>(\$313,785)</u>
Estimated Net FTE Change on the Insurance Dedicated Fund	2.6 FTE	2.6 FTE	2.6 FTE
INSURANCE EXAMINATION FUND			
<u>Costs - DIFP</u>			
Personal service	(\$25,242)	(\$30,593)	(\$30,899)
Fringe benefits	(\$12,875)	(\$15,604)	(\$15,760)
Equipment and Expense	(\$1,787)	(\$1,269)	(\$1,301)
<u>Total Costs - DIFP</u>	<u>(\$39,904)</u>	<u>(\$47,466)</u>	<u>(\$47,960)</u>
FTE Change - DIFP	.4 FTE	.4 FTE	.4 FTE
ESTIMATED NET EFFECT ON INSURANCE EXAMINATION FUND	<u>(\$39,904)</u>	<u>(\$47,466)</u>	<u>(\$47,960)</u>
Estimated Net FTE Change on the Insurance Examination Fund	.4 FTE	.4 FTE	.4 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (6 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Insurers would be responsible for filing additional reports with the Department of Insurance, Financial Institutions and Professional Registration.

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". 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 enacts the model version of the own risk and solvency assessments (ORSA) legislation developed by the National Association of Insurance Commissioners. The purpose of the model legislation is to allow large- and medium-sized insurers to develop their own model of current and future financial risk and allow regulators to determine how insurers will react to financial stress.

Insurers must file a report on solvency risk with the Director of the Department of Insurance, Financial Institutions and Professional Registration. The department director is to determine the deadline for the report. Insurers required to file the report are specified in the proposal, and the criteria for the report are specified in the proposal. Procedures for sharing information with the National Association of Insurance Commissioners and for maintaining records are also specified. The report cannot be a public record under Chapter 610, RSMo, the Open Meetings and Records Law, commonly known as the Sunshine Law, or subject to use in civil actions of any kind.

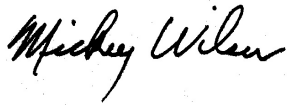
Parts of this proposal are effective January 1, 2016.

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

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SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration



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