

HOUSE BILL REPORT

HB 2321

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to the insurer corporate governance annual disclosure model act.

Brief Description: Addressing the insurer corporate governance annual disclosure model act.

Sponsors: Representatives Bergquist, Kirby, Vick and Stanford; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Business & Financial Services: 1/10/18, 1/16/18 [DP].

Brief Summary of Bill

- Implements the National Association of Insurance Commissioners' Corporate Governance Annual Disclosure Model Act.
- Requires insurers to submit a corporate governance disclosure to the insurance commissioner annually.
- Adds the annual corporate governance disclosure and accompanying documents to the list of insurance and financial institution-related documents that are exempt from public disclosure.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Reeves, Vice Chair; Vick, Ranking Minority Member; Walsh, Assistant Ranking Minority Member; Barkis, Bergquist, Blake, Jenkin, McCabe, Santos and Stanford.

Staff: Robbi Kesler (786-7153).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Office of the Insurance Commissioner (OIC) regulates all insurance and insurance transactions in the state, including the regulation of persons, property, and activities related to insurance.

The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies that coordinates the regulation of insurance. One approach the NAIC uses to coordinate state regulation of insurance is to develop model laws, rules, and standards. In 2014 the NAIC executive committee adopted corporate governance models, including a model act and model regulation.

The NAIC's corporate governance model rule requires insurers to file a corporate governance disclosure (disclosure) annually. The disclosure must describe:

- the insurer's corporate governance framework and structure, including the structure and duties of the board or various committees that oversee the insurer;
- the policies and practices of the most senior governing entity of the insurer;
- the policies and practices for directing senior management; and
- the processes used by the board and senior management to ensure that there is appropriate oversight of the critical risk areas impacting the insurer's business activities.

Summary of Bill:

The National Association of Insurance Commissioners' (NAIC) Corporate Governance Annual Disclosure Model Act is implemented.

An insurer, or the insurance group of which the insurer is a member, must submit a corporate governance disclosure to the Office of the Insurance Commissioner (OIC) by June 1 of each year. The disclosure must contain the information required by the NAIC's corporate governance model rule, which may be adopted by the OIC. The insurer or insurance group may provide information regarding corporate governance at either: (1) the ultimate controlling parent level; (2) an intermediate holding company level; or (3) the individual legal entity level, or any combination of the three levels. An insurer that has provided substantially similar information in other documents provided to the Commissioner may cross-reference the documents in its disclosure.

The disclosure, and any document or material submitted as part of the disclosure, is recognized by the state as proprietary and assumed to contain trade secrets. All documents, materials, or other information is confidential by law and privileged, and is not subject to the Public Records Act. Additionally, the documents are not subject to subpoena, nor are they discoverable or admissible as evidence in any private civil action. The OIC may use the documents as part of any regulatory or legal action brought as part of the OIC's official duties, and the OIC may share the documents with other state, federal, and international financial regulatory agencies, the NAIC, and with third-party consultants that are necessary to assist the OIC in reviewing the disclosure.

An insurer that fails to timely file the disclosure must pay a penalty of \$500 for each day of delay, with a maximum penalty of \$100,000. The penalty is collected by OIC and paid into the State General Fund. The OIC may reduce the penalty if the insurer demonstrates that the penalty would constitute a financial hardship to the insurer.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2019.

Staff Summary of Public Testimony:

(In support) This does not require new governance standards, it simply requires insurance companies to report on existing practice and governance framework. Requiring certain disclosures related to policies and practices helps the regulators and public understand how the insurance companies are making business decisions. Model acts are worked on extensively with input from regulators and the insurance industry. This update is necessary for insurance companies to maintain accreditation in the state and nationally.

(Opposed) None.

Persons Testifying: Representative Bergquist, prime sponsor; Lonnie Johns-Brown, Office of the Insurance Commissioner; Jean Leonard, Washington Insurers National Association of Mutual Insurance Company; and Mel Sorensen, Property Casualty Insurers Association of America, American Council of Life Insurance, and America's Health Insurance Plans.

Persons Signed In To Testify But Not Testifying: None.