TESTIMONY

Matt Fischer, Division Director, Company Licensing & Examinations
House Industry, Business and Labor Committee
January 13, 2024

Good morning, Chairman Warrey and members of the House Industry, Business and Labor Committee. My name is Matt Fischer, and I am the Division Director of Company Licensing & Examinations for the North Dakota Insurance Department. I appear before you today in support House Bill No. 1124.

This bill amends the existing Insurance Holding Company Systems law to reflect the changes made to the National Association of Insurance Commissioners ("NAIC") model holding company law. This model is included in the NAIC Accreditation Program and must be adopted by states no later than January 1, 2026, to ensure their accredited status. Under the accreditation program, established by the NAIC in 1990, the goal is for each state to adopt certain laws and rules so that multi-state life, health and property and casualty insurers are subject to consistent solvency regulation requirements. North Dakota has maintained its accredited status since 1992 by adopting and implementing the necessary standards to effectively regulate an insurer's corporate and financial affairs. Currently, the changes to the updated holding company law have been adopted by 35 states. Another benefit of the NAIC Accreditation Program is that it helps preserve the state-based insurance regulatory system and demonstrates to the federal government that federal intervention is not necessary in the insurance industry.

The changes made with this bill can be broken down into three specific areas: the Group Capital Calculation ("GCC"), the Liquidity Stress Test ("LST") and Receivership Updates.

The GCC is the progression of work and lessons learned by state insurance regulators since the financial crisis in 2008. While we currently have the authority to obtain information on the capital positions of non-insurance affiliates, we did not have a consistent analytical framework for evaluating this information. The GCC is the tool that closes this gap.

Another factor that led to the creation of the GCC was the Dodd-Frank Act which authorized the U.S. Treasury to enter into Covered Agreements with foreign countries. These agreements effectively allow the federal government to pre-empt state law if the Federal Insurance Office ("FIO") determines that state law results in less favorable treatment to reinsurers in a foreign jurisdiction that has signed the Covered Agreement. State insurance regulators have responded and crafted legislation to avoid this potential federal preemption with group capital being the final item. Group capital is also the final item for North Dakota to complete as both reinsurance collateral and group supervision have been addressed.

The LST framework was crafted as state insurance regulators were performing a review of foreign jurisdictions activities in the macroprudential space. A common theme noted during this review was the stress testing of liquidity assessments. State insurance regulators determined that creating a tool that could assess the impacts the life insurance industry can have on the broader financial markets in a stress event is necessary. The LST would apply to designated large life insurers at the group level. Currently North Dakota does not have any of these designated life insurers.

In whole, both the GCC and the LST are additional tools for our Department to use to help ensure that not only are individual insurers properly capitalized with appropriate levels of liquidity, but also that the groups in which they are a part of are also properly capitalized with appropriate levels of liquidity.

The Receivership Updates found in Section 3 of this bill are designed to ensure that essential services and functions that an insurer is receiving from an affiliated company continue even if the insurer is placed into receivership.

I respectfully request a “do pass” recommendation from the committee on House Bill 1124 and I am happy to take any questions.