15.8091.02000

FISCAL NOTE
Requested by Legislative Council
12/22/2014

Amendment to: SB 2130

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill allows the Commissioner to reduce collateral requirements for unauthorized reinsurers seeking to assume business from domestic ND insurers if they are from equivalent regulatory jurisdictions and meet certain financial criteria.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

This bill has no fiscal impact.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill has no fiscal impact.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

This bill has no fiscal impact.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

This bill has no fiscal impact.

Name: Rebecca L. Ternes
Agency: Insurance Department
Telephone: 328-2440
Date Prepared: 12/30/2014

15.8091.01000

FISCAL NOTE
Requested by Legislative Council
12/22/2014

Bill/Resolution No.: SB 2130

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill allows the Commissioner to reduce collateral requirements for unauthorized reinsurers seeking to assume business from domestic ND insurers if they are from equivalent regulatory jurisdictions and meet certain financial criteria.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

This bill has no fiscal impact.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill has no fiscal impact.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

This bill has no fiscal impact.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

This bill has no fiscal impact.

Name: Rebecca L. Ternes
Agency: Insurance Department
Telephone: 328-2440
Date Prepared: 12/30/2014

2015 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2130

2015 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

SB 2130
1/14/2015
Job Number 21938

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Eva Liebelt

Explanation or reason for introduction of bill/resolution:

Relating to reinsurance credit of insurers

Minutes:

Attachments

Chairman Klein: Opened the hearing.

Edward Moody, Company Licensing Director North Dakota Insurance Department: Written Testimony Attached (1). (:50-7:08)

Senator Campbell: Asked if this was unusual to endorse something that would reduce the collateral and if the reason was because it will be passed on to lesser premiums. In the business of insurance is there some "good old boys club" where they will take the difference on the reinsured and keep the profits and not realize the profit sharing to the end consumer.

Edward Moody: Yes that could be one of the outcomes but we would be relying on competition and that other reinsurers that would be willing to reduce the premiums would therefore get a better advantage. There is also a second fold issue, stated in my testimony, not only to reduce the premiums potentially for the insured but also to prevent further inroads of the federal government into state regulation. (7:50-8:36)

Senator Burckhard: Asked for examples of reinsurers that are outside of the United States that might be well known.

Edward Moody: Examples would be Munich Re, Hanover Re. Most of those will get a U.S. port of entry so they have an authorized reinsurer here. The ones that are strictly foreign would be like Lloyds of London. (9:15-10:08)

Chairman Klein: Said that across America we have been at the 100% collateral for reinsurers and now we are taking a second look at it. We haven't had any issues but we have concerns of the FIO, Federal Insurance Office, taking the regulation away. The suggestion amongst the industry is that we have no flexibility in the system we have now with fifty different regulators.

Ed Moody: Yes generally that is correct but he wanted to point out that for the most part reinsurance in the United States and most specifically in North Dakota is done through authorized reinsurers or accredited reinsurers and they do not have to post 100% collateral. (11:00-11:32)

Chairman Klein: Any other questions, anyone else in support of 2130?

Levi Andrist, **American Council of Life Insurers**: Written Testimony Attached (2).

Chairman Klein: Asked for anyone else in support or opposition. He closed the hearing.

Senator Campbell motioned for a do pass.

Senator Poolman seconded the motion.

Roll Call Vote: Yes-7 No-0 Absent-0

Senator Miller has the Floor Assignment.

Date: 1/14/2015
Roll Call Vote #:1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2130

Senate Industry, Business and Labor Committee

☐ Subcommittee

Amendment LC# or Description:

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐

Motion Made By Senator Campbell Seconded By Senator Poolman

Senators	Yes	No	Senators	Yes	No
Chairman Klein	x		Senator Murphy	x	
Vice Chairman Campbell	x		Senator Sinner	x	
Senator Burckhard	x				
Senator Miller	x				
Senator Poolman	x				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Miller

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2130: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2130 was placed on the Eleventh order on the calendar.

2015 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2130

2015 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2130
3/18/2015
25037

☐ Subcommittee
☐ Conference Committee

Ellen LeTang

Explanation or reason for introduction of bill/resolution:

Reinsurance credit of insurers.

Minutes:

Attachments 1, 2, 3

Chairman Keiser: Opens the hearing on SB 2129.

Edward Moody~Company Licensing Director-North Dakota Insurance Department: (Attachment 1).

5:10

Representative M Nelson: Is North Dakota a qualified jurisdiction?

Moody: Qualified jurisdictions refer to territories countries outside of the United States.

Representative M Nelson: How does a country become qualified?

Moody: It would be developed by rule if this bill is approved. As it stands now, the NAIC reviews these jurisdictions and makes a determination whether or not their regulations are similar to the US. The commissioner has the authority to review and approve that if this becomes law in addition to whatever rules we pass.

Representative Louser: You reference Dodd Frank, is this in reference to any of the rules that have promulgated by Dodd Frank or is this an anticipation that something that's coming?

Moody: This is part of the not-admitted reinsurance reform act that requires for reinsurers. Another state cannot impose heavier requirements than what the domiciliary state is requiring of that reinsurer. Those states that have passed the credit for reinsurance act and have certified reinsurers who have low collateral requirement, North Dakota, if this bill didn't pass, couldn't impose the 100% collateral requirements we now have on those reinsurers in domiciliary.

Representative Becker: Take the collateral from 100% to anything that ranges from 0% to 100% for companies which are either authorized or accredited, it seems to me concerning.

Moody: Foreign currency translations would be an issue that would be taken into consideration because of the currency value subject to fluctuation.

Representative Becker: Most cases assessing the six factors are going to give some security. Some have strong currency. Unless we can predict current events, it seems risky to me if we went to 0%.

Moody: These assignments in terms of the jurisdiction and the individual certified reinsurer in terms of their rating, therefore, their collateral requirement they would be required to post, are fluid. They would change as the circumstances change. It is meant to be reviewed periodically and those rating can move within the range.

Representative Kasper: Page 3, line 5, "the trust" and on line 6, doesn't that address the concern for Representative Becker?

Moody: The trust requirements are in US dollars but they do not specifically relate to the question Representative Becker was asking because the trust requirements are assuming reinsurers that are either authorized or certified but wish to do business. Therefore, they would be required to have the trust. This goes back to 100% collateral that we talked about earlier.

Chairman Keiser: When would the commissioner approve zero collateral?

Moody: He would have to be very convinced that institution and jurisdiction were substantially similar to institutions that in the US are not required to post any collateral.

Chairman Keiser: In terms of zero, is that in terms of the posting the collateral for that project or is that terms of having that collateral in their reserve?

Moody: They are required to keep their reserves and their regulatory jurisdiction would make sure that doing that relative to the business that they have assumed. The collateral refers; the way it works now is rather than actually taking fiscal assets and putting them in the US. What's done is they issue letters of credit. Those letters of credit have a cost and what this bill is allowing is more competition to the market.

Pat Ward~Representing All State: (Attachment 2).

Chairman Keiser: Is the department ok with the amendment.

Moody: The department would like to stick as close to the model as possible, but this would not cause an accreditation issue if this amendment was made to the bill.

John Gerni~American Coucil of Life Insurers: (Attachment 3).

Chairman Keiser: Historically the requirement has been, if you are a US domicile reinsurer, you are given certain flexibility. If you are a non US reinsurance company, then the 100% collateral was required. What this bill is moving through certification, moving the non-US reinsurance market into a position comparable with the US reinsurance market. Part of that necessity is most reinsurers have moved out of the US. To get access to those dollars, this is essential.

Gerni: You're correct.

Chairman Keiser: Anyone else here to testify in support of SB 2130, opposition, neutral? Closes the hearing on SB 2130, what are the wishes of the committee?

Representative Kasper: Page 2, line 12, is there is a word missing.

Representative Ruby: Sounds right to me.

Representative Laning: Moves Pat Ward's amendment.

Representative Devlin: Seconded.

Voice vote-motion carried.

Representative Beadle: How often are reinsurance contracts renewed or entered into?

Moody: Most are every year.

Chairman Keiser: What are the wishes of the committee?

Representative Kasper: Moves a Do Pass as Amended.

Representative Boschee: Seconded.

Roll call was taken on SB 2130, for a Do Pass as Amended with 13 yes, 1 no, 1 absent and Representative Boschee will carry the bill.

15.8091.01001
Title.02000

Adopted by the Industry, Business and Labor Committee 3/18/15 SK

March 18, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2130

Page 1, line 2, after "insurers" insert "; and to provide an effective date"

Page 14, after line 15, insert:

"c. Credit for reinsurance ceded to a certified reinsurer is limited to reinsurance contracts entered or renewed on or after the effective date of the commissioner's certification of the assuming insurer."

Page 16, after line 14, insert:

"**SECTION 5. EFFECTIVE DATE.** This Act becomes effective on January 1, 2016."

Renumber accordingly

Date: March 18, 2015

Roll Call Vote: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2130

House Industry, Business & Labor Committee

☐ Subcommittee ☐ Conference Committee

Amendment LC# or Description: ____________________

Recommendation: ☒ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
Other Actions: ☐ Reconsider ☐ ____________________

Motion Made By Rep Laning Seconded By Rep Devlin

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser			Representative Lefor		
Vice Chairman Sukut			Representative Louser		
Representative Beadle			Representative Ruby		
Representative Becker			Represenative Amerman		
Representative Devlin			Representative Boschee		
Representative Frantsvog			Representative Hanson		
Representative Kasper			Representative M Nelson		
Representative Laning					

Total (Yes) ____________________ No ____________________

Absent ____________________

Floor Assignment ____________________

If the vote is on an amendment, briefly indicate intent:

adopt Pat Ward's amendment

voice vote - motion carried

Date: March 18, 2015

Roll Call Vote: 2

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2130

House Industry, Business & Labor Committee

☐ Subcommittee ☐ Conference Committee

Amendment LC# or Description:

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☒ As Amended ☐ Rerefer to Appropriations

Other Actions: ☐ Reconsider ☐

Motion Made By Rep Kasper Seconded By Rep Boschee

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Representative Lefor	X	
Vice Chairman Sukut	X		Representative Louser	X	
Representative Beadle	X		Representative Ruby	X	
Representative Becker		X	Represenative Amerman	X	
Representative Devlin	X		Representative Boschee	X	
Representative Frantsvog	Ab		Representative Hanson	X	
Representative Kasper	X		Representative M Nelson	X	
Representative Laning	X				

Total (Yes) 13 No 1

Absent 1

Floor Assignment Rep Boschee

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2130: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). SB 2130 was placed on the Sixth order on the calendar.

Page 1, line 2, after "insurers" insert "; and to provide an effective date"

Page 14, after line 15, insert:

"c. Credit for reinsurance ceded to a certified reinsurer is limited to reinsurance contracts entered or renewed on or after the effective date of the commissioner's certification of the assuming insurer."

Page 16, after line 14, insert:

"**SECTION 5. EFFECTIVE DATE.** This Act becomes effective on January 1, 2016."

Renumber accordingly

2015 TESTIMONY

SB 2130

(1)

SENATE BILL NO. 2130

Presented by:	**Edward Moody** **Company Licensing Director** **North Dakota Insurance Department**
Before:	**Senate Industry, Business and Labor Committee** **Senator Jerry Klein, Chairman**
Date:	**January 14, 2015**

TESTIMONY

Good morning, Chairman Klein and committee members. For the record, my name is Edward Moody and I am Chief Examiner and Director of the Company Licensing and Examinations Division of the North Dakota Insurance Department.

You have before you Senate Bill No. 2130 which amends existing reinsurance credit laws to allow for the reduction of collateral requirements for assuming reinsurers that are neither authorized nor accredited in North Dakota if the assuming reinsurer becomes certified. Typically, these reinsurers are located outside the United States.

The National Association of Insurance Commissioners (NAIC) adopted a revised credit for reinsurance model in 2011. The revision allows for reductions in the 100 percent collateral requirement based upon a reinsurer's qualification as a "certified reinsurer", an assessment of its financial strength, and the designation of the reinsurer's domicile as a "qualified jurisdiction".

Credit for reinsurance refers to the reduction in carried loss reserves that the ceding insurer is allowed to take for reinsurance purchased. The ceding insurer transfers risks of losses over specific amounts to the reinsurance company. While unauthorized reinsurers provide significant reinsurance to U.S. ceding insurers, U.S. insurance commissioners do not directly regulate such reinsurers. Rather, most states currently

(1)

require that, in order for ceding insurers to obtain full financial statement credit for reinsurance placements with unauthorized reinsurers, reinsurance liabilities must be collateralized at 100 percent. Higher collateralization costs insurers more money which is passed on to policyholders in the form of premium.

Collateral reform efforts have focused upon reinsurers that, despite not being licensed or accredited, are financially strong and are domiciled in jurisdictions (countries) in which the reinsurers are considered well-regulated. To be able to post reduced collateral, reinsurers must apply to become "Certified Reinsurers" with a state insurance commissioner and are evaluated based upon their financial strength and reputation, among other things. Certification is determined by the following:

1. Must be domiciled in a qualified jurisdiction;

2. Must have sufficient capital and surplus;

3. Must have financial strength ratings from two or more rating agencies;

4. Must have a willingness to post full collateral if the assuming insurer resists enforcement of U.S. judgment; and

5. Must meet all information filing requirements.

The amount of the collateral reduction, if any, will be based on the assuming reinsurer's regulatory jurisdiction and its credit quality. Currently, 100 percent collateral is required for the ceding company to be able to obtain credit for the reinsurance. Under the proposed legislation, non-U.S. domiciled reinsurers from qualified jurisdictions (currently Bermuda, France, Germany, Ireland and the United Kingdom) which meet certain credit quality requirements will be allowed to post reduced collateral.

The amount of collateral that will be required to ensure credit for reinsurance will depend on the assuming reinsurer's rating (numerical value from one to six with one being the strongest and six the weakest) and will range from zero for an assuming reinsurer rated, to 100 percent for a rating of six.

Section 1 of the bill also strengthens the trust requirements for reinsurers that are neither authorized nor accredited and do not wish to become certified. The trust agreement must be approved by the domiciliary commissioner or commissioner with principal regulatory oversight of the trust. The trust must be filed with every state in which ceding insurer beneficiaries are domiciled. The trust balance may be reduced when the assuming insurer has permanently discontinued underwriting new business for at least three full years.

The required trust balance will be based on an analysis of the loss reserves and in no event can the trust balance be less than 30 percent of the assuming insurers' liabilities.

The amendments in Senate Bill No. 2130 will conform with recent changes to the NAIC Model Credit for Reinsurance Act; however, the revised models are not required to be adopted by states. If a state chooses to reduce collateral requirements, it must do so in accordance with the revised NAIC models in order to maintain accreditation.

It is important that North Dakota make these changes to show solidarity with other states to fend off more federal regulation of insurance in our state. Other jurisdictions and some in the industry are using our stricture collateral requirements as examples of inconsistencies amongst the U.S. regulatory jurisdictions and suggesting one federal regulator would be better.

Not passing the bill could also disadvantage North Dakota domestic insurers seeking to cede risks compared to nondomiciled licensed insurers in the state as they would be able to take advantage of the reduced collateral requirements if its state had passed these modifications to the credit for reinsurance allowing the reduced collateral.

(1)

As of October 21, 2014, 23 states (representing 60 percent of primary insurance in the U.S.) have adopted similar legislation and another 5 states have pending legislation.

The fiscal note on this bill indicates no fiscal impact.

Mr. Chairman, members of the committee, I am happy to answer any questions and urge a vote of “do pass” on Senate Bill No. 2130. Thank you.

January 14, 2015 (2)

ACLI

Financial Security...for Life.

The American Council of Life Insurers (ACLI) supports the uniform adoption of the National Association of Insurance Commissioners (NAIC) Model Law on Credit for Reinsurance. This model was approved with wide support by the NAIC in 2011, and the adoption in the states is an important aspect of reforming reinsurance collateral requirements. SB 2130 closely follows the NAIC Model.

Passage of SB 2130 would be an important update to North Dakota law and would provide incentives to financially sound reinsurers to do business in North Dakota. It is also critical to North Dakota's pro-active role in the insurance regulatory modernization debate at the federal level and internationally. The European Union and the U.S. federal government are both looking critically at the current insurance regulatory landscape. One issue that is consistently raised in the debate is the application of state collateral requirements. By enacting SB 2130, North Dakota would demonstrate the ability of the state-based insurance regulatory system to address international insurance issues. In addition, it is likely that lower collateral for highly rated, well-regulated reinsurers subject to regulation in North Dakota will ultimately lead to lower prices for North Dakota consumers.

The ACLI supports SB 2130 and we urge the Committee to adopt it.

/

SENATE BILL NO. 2130

Presented by:	**Edward Moody** **Company Licensing Director** **North Dakota Insurance Department**
Before:	**House Industry, Business and Labor Committee** **Representative George Keiser, Chairman**
Date:	**March 18, 2015**

TESTIMONY

Good morning, Chairman Keiser and committee members. For the record, my name is Edward Moody and I am Chief Examiner and Director of the Company Licensing and Examinations Division of the North Dakota Insurance Department.

You have before you Senate Bill No. 2130 which amends existing reinsurance credit laws to allow for the reduction of collateral requirements for assuming reinsurers that are neither authorized nor accredited in North Dakota if the assuming reinsurer becomes certified. Typically, these reinsurers are located outside the United States.

The National Association of Insurance Commissioners (NAIC) adopted a revised credit for reinsurance model in 2011. The revision allows for reductions in the 100 percent collateral requirement based upon a reinsurer's qualification as a "certified reinsurer", an assessment of its financial strength, and the designation of the reinsurer's domicile as a "qualified jurisdiction".

Credit for reinsurance refers to the reduction in carried loss reserves that the ceding insurer is allowed to take for reinsurance purchased. The ceding insurer transfers risks of losses over specific amounts to the reinsurance company. While unauthorized reinsurers provide significant reinsurance to U.S. ceding insurers, U.S. insurance commissioners do not directly regulate such reinsurers. Rather, most states currently require that, in order for ceding insurers to obtain full financial statement credit for reinsurance placements with unauthorized reinsurers, reinsurance liabilities must be collateralized at 100 percent. Higher collateralization costs insurers more money which is passed on to policyholders in the form of premium.

Collateral reform efforts have focused upon reinsurers that, despite not being licensed or accredited, are financially strong and are domiciled in jurisdictions (countries) in which the reinsurers are considered well-regulated. To be able to post reduced collateral, reinsurers must apply to become "Certified Reinsurers" with a state insurance commissioner and are evaluated based upon their financial strength and reputation, among other things. Certification is determined by the following:

1. Must be domiciled in a qualified jurisdiction;

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4. Must have a willingness to post full collateral if the assuming insurer resists enforcement of U.S. judgment; and

5. Must meet all information filing requirements.

The amount of the collateral reduction, if any, will be based on the assuming reinsurer's regulatory jurisdiction and its credit quality. Currently, 100 percent collateral is required for the ceding company to be able to obtain credit for the reinsurance. Under the proposed legislation, non-U.S. domiciled reinsurers from qualified jurisdictions (currently Bermuda, France, Germany, Ireland and the United Kingdom) which meet certain credit quality requirements will be allowed to post reduced collateral.

The amount of collateral that will be required to ensure credit for reinsurance will depend on the assuming reinsurer's rating (numerical value from one to six with one being the strongest and six the weakest) and will range from zero for an assuming reinsurer rated, to 100 percent for a rating of six.

Section 1 of the bill also strengthens the trust requirements for reinsurers that are neither authorized nor accredited and do not wish to become certified. The trust agreement must be approved by the domiciliary commissioner or commissioner with principal regulatory oversight of the trust. The trust must be filed with every state in which ceding insurer beneficiaries are domiciled. The trust balance may be reduced when the assuming insurer has permanently discontinued underwriting new business for at least three full years.

The required trust balance will be based on an analysis of the loss reserves and in no event can the trust balance be less than 30 percent of the assuming insurers' liabilities.

The amendments in Senate Bill No. 2130 will conform with recent changes to the NAIC Model Credit for Reinsurance Act; however, the revised models are not required to be adopted by states. If a state chooses to reduce collateral requirements, it must do so in accordance with the revised NAIC models in order to maintain accreditation.

It is important that North Dakota make these changes to show solidarity with other states to fend off more federal regulation of insurance in our state. Other jurisdictions and some in the industry are using our stricture collateral requirements as examples of inconsistencies amongst the U.S. regulatory jurisdictions and suggesting one federal regulator would be better.

Not passing the bill could also disadvantage North Dakota domestic insurers seeking to cede risks compared to nondomiciled licensed insurers in the state as they would be able to take advantage of the reduced collateral requirements if its state had passed these modifications to the credit for reinsurance allowing the reduced collateral.

As of October 21, 2014, 23 states (representing 60 percent of primary insurance in the U.S.) have adopted similar legislation and another 5 states have pending legislation.

The fiscal note on this bill indicates no fiscal impact.

Mr. Chairman, members of the committee, I am happy to answer any questions and urge a vote of "do pass" on Senate Bill No. 2130. Thank you.

Pat Ward's Amendment 2

15.8091.01001
Title.02000

Adopted by the Industry, Business and Labor Committee
March 18, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2130

Page 1, line 2, after "insurers" insert "; and to provide an effective date"

Page 14, after line 15, insert:

"c. Credit for reinsurance ceded to a certified reinsurer is limited to reinsurance contracts entered or renewed on or after the effective date of the commissioner's certification of the assuming insurer."

Page 16, after line 14, insert:

"**SECTION 5. EFFECTIVE DATE.** This Act is effective January 1, 2016."

Renumber accordingly

3

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS

BEFORE THE HOUSE INDUSTRY BUSINESS AND LABOR COMMITTEE

IN SUPPORT OF SB 2130

John P. Gerni
Regional Vice President, State Relations
March 18, 2014

Pg 1

Good morning, Chairman Keiser and members of the House IBL Committee. My name is John Gerni and I am the Regional Vice President of State Relations for the American Council of Life Insurers. The ACLI is a national trade association representing the life insurance industry that has nearly 300 member companies who hold more than 93 percent of the total life insurance in America today accounting for 93 percent of the total life insurance coverage on North Dakota residents.

ACLI supports SB 2130, which is substantially similar to the National Association of Insurance Commissioners (NAIC) Model Law on Credit for Reinsurance. The model was adopted with wide support by the NAIC in 2011 and the uniform adoption in the states is an important aspect of reforming reinsurance collateral requirements.

The purpose of SB 2130 is to recognize reinsurance collateral requirements for certain non U.S. licensed reinsurers that are subject to certification by the Insurance Department. Such criteria is includes financial strength and timely claims payment history. The proposal does provide assistance to domestic insurers who will now have access to more reinsurers and possibly more favorable terms.

This issue has long been deliberated within national and international venues in the insurance regulatory world for the past several years and is a very appropriate solvency tool for our regulator in North Dakota to utilize. The ACLI strongly supports SB 2130 and respectfully request your favorable consideration of it.

pg 2