



OFFICE OF MANAGEMENT & BUDGET

STATE BUDGET OFFICE

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MEMORANDUM

To: The Honorable Marvin L. Abney
Chairman, House Finance Committee

The Honorable William J. Conley, Jr.
Chairman, Senate Finance Committee

From: Thomas A. Mullaney *Thomas A. Mullaney*
Executive Director/State Budget Officer

Date: July 21, 2020

Subject: New Article for the FY 2021 Appropriations Act
(20-H-7171)

The Governor requests that a new article, entitled "Relating to Insurance", be included in the FY 2021 Appropriations Act.

This proposed budget article amends the risk-based capital trend test for life insurers from 2.5 to 3.0. This is a financial solvency tool that allows the Department of Business Regulation to evaluate the solvency of a life insurer. This change is required for the Department to maintain its accreditation with the National Association of Insurance Commissioners (NAIC). Accreditation of the Department is vital to Rhode Island being able to maintain its current domestic insurance industry, including Amica, FM Global, and Metropolitan Property & Casualty and to potentially attract new insurers to the State. Although, the Department recently received accreditation, it did so under the proviso that this legislative change had been submitted to the General Assembly for approval (under H-7769 and S-2620). Failure to make this change could result in a loss of this accreditation and result in 28 insurance companies located in Rhode Island to consider relocating. Such a result would have a major impact on the State's revenues, particularly taxes on insurance companies, but also income and other taxes.

If you have any questions regarding this new article, please feel free to call me at 222-6300.

TAM: 21-Amend-09

Cc: Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor
Elizabeth Dwyer, Department of Business Regulation

NEW ARTICLE

RELATING TO INSURANCE

SECTION 1. Section 27-4.6-3 of the General Laws in Chapter 27-4.6 entitled "Risk-Based Capital (RBC) for Insurers Act" is hereby amended to read as follows:

27-4.6-3. Company action level event.

(a) "Company action level event" means any of the following events:

(1) The filing of an RBC report by an insurer that indicates that:

(i) The insurer's total adjusted capital is greater than or equal to its regulatory action level RBC but less than its company action level RBC;

(ii) If a life and/or health insurer, the insurer has total adjusted capital that is greater than or equal to its company action level RBC but less than the product of its authorized control level RBC and ~~2.5~~ 3.0 and has a negative trend; or

(iii) If a property and casualty insurer, the insurer has total adjusted capital which is greater than or equal to its company action level RBC but less than the product of its authorized control level RBC and 3.0 and triggers the trend test determined in accordance with the trend test calculation included in the property and casualty RBC instructions.

(2) The notification by the commissioner to the insurer of an adjusted RBC report that indicates an event in subdivision (a)(1), provided the insurer does not challenge the adjusted RBC report under § 27-4.6-7; or

(3) If, pursuant to § 27-4.6-7, an insurer challenges an adjusted RBC report that indicates the event in subdivision (a)(1), the notification by the commissioner to the insurer that the commissioner has, after a hearing, rejected the insurer's challenge.

(b) In the event of a company action level event, the insurer shall prepare and submit to the commissioner an RBC plan which shall:

(1) Identify the conditions that contribute to the company action level event;

(2) Contain proposals of corrective actions that the insurer intends to take and would be expected to result in the elimination of the company action level event;

(3) Provide projections of the insurer's financial results in the current year and at least the four (4) succeeding years, both in the absence of proposed corrective actions and giving effect to the proposed corrective actions, including projections of statutory operating income, net income, capital and/or surplus. (The projections for both new and renewal business might include separate projections for each major line of business and separately identify each significant income, expense and benefit component);

(4) Identify the key assumptions impacting the insurer's projections and the sensitivity of the projections to the assumptions; and

(5) Identify the quality of, and problems associated with, the insurer's business, including, but not limited to, its assets, anticipated business growth and associated surplus strain, extraordinary exposure to risk, mix of business and use of reinsurance, if any, in each case.

(c) The RBC plan shall be submitted:

(1) Within forty-five (45) days of the company action level event; or

(2) If the insurer challenges an adjusted RBC report pursuant to § 27-4.6-7, within forty-five (45) days after notification to the insurer that the commissioner has, after a hearing, rejected the insurer's challenge.

(d) Within sixty (60) days after the submission by an insurer of an RBC plan to the commissioner, the commissioner shall notify the insurer whether the RBC plan shall be implemented or is, in the judgment of the commissioner, unsatisfactory. If the commissioner determines that the RBC plan is

unsatisfactory, the notification to the insurer shall set forth the reasons for the determination, and may set forth proposed revisions which will render the RBC plan satisfactory in the judgment of the commissioner. Upon notification from the commissioner, the insurer shall prepare a revised RBC plan, which may incorporate by reference any revisions proposed by the commissioner, and shall submit the revised RBC plan to the commissioner:

(1) Within forty-five (45) days after the notification from the commissioner; or

(2) If the insurer challenges the notification from the commissioner under § 27-4.6-7, within forty-five (45) days after a notification to the insurer that the commissioner has, after a hearing, rejected the insurer's challenge.

(e) In the event of a notification by the commissioner to an insurer that the insurer's RBC plan or revised RBC plan is unsatisfactory, the commissioner may at the commissioner's discretion, subject to the insurer's right to a hearing under § 27-4.6-7, specify in the notification that the notification constitutes a regulatory action level event.

(f) Every domestic insurer that files an RBC plan or revised RBC plan with the commissioner shall file a copy of the RBC plan or revised RBC plan with the insurance commissioner in any state in which the insurer is authorized to do business if:

(1) That state has an RBC provision substantially similar to § 27-4.6-8(a); and

(2) The insurance commissioner of that state has notified the insurer of its request for the filing in writing, in which case the insurer shall file a copy of the RBC plan or revised RBC plan in that state no later than the later of:

(i) Fifteen (15) days after the receipt of notice to file a copy of its RBC plan or revised RBC plan with the state; or

(ii) The date on which the RBC plan or revised RBC plan is filed under subsections (c) and (d) of this section.

SECTION 2. This act shall take effect upon passage.