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Banking, Commerce and Insurance Committee
January 26, 2016

[LB758 LB772 LB819 LB840]

The Committee on Banking, Commerce and Insurance met at 1:30 p.m. on Tuesday, January 26, 2016, in Room 1507 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB758, LB772, LB819, and LB840. Senators present: Jim Scheer, Chairperson; Matt Williams, Vice Chairperson; Kathy Campbell; Joni Craighead; Nicole Fox; Mike Gloor; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SCHEER: Good afternoon. Welcome to the Banking, Commerce and Insurance Committee. Being the appointed time, we will go ahead and start. My name is Jim Scheer, from Norfolk, representing the 19th District which is Madison County, a little bit of Stanton. I serve as the Chair of the committee this year. The committee will take up bills as they are...in the order that they are posted. Our hearings today are your public part of the legislative process and this is your opportunity to express your position on the proposed legislation before us today. Committee members will come and go during the hearing. We will have to introduce bills in other committees and are called away. It's not an indication if we're interested in the subject matter before us, only or that we have other commitments that reside in other committees during that time period. To better facilitate the proceedings today, I would ask you to follow the following suggestions. Please turn your phones to either silence or vibrate so that we are not interfered during the discussion. When you are going to testify, if you could move forward to one of the front chairs so that we know how many people may be waiting to testify. The order of testimony today will be the introducer, proponents, opponents, neutral, and the senator will be given the opportunity to close. Testifiers, please sign in. It is a pink sheet. They're available in the back. Please provide that to Jan, to your far right, before you start. When you start your testimony, make sure that you are speaking directly into the mike and that you spell both your first and last name for the record. I will ask you to be concise. We are limiting the testimony to five minutes. We do have a light system. The light system should work as the following: green would be the first four minutes; yellow would be one minute; and then the red would be your time to stop. If the red light comes on and you have not noticed it, I will help you notice it. Written material that you would like the committee members to have, should have ten copies. If you do not have ten copies, fear not, our pages will be glad to make those copies for you so that you will have them. We will need ten copies, as I said, and again, provide those to Jan when you come up. To my immediate right is our committee counsel, Bill Marienau, who has been here 37 years and 38 sessions, so he has a little longevity in that position. And Jan is our newcomer this year as committee clerk, and she's been here for 33 years and 34 sessions. At this opportunity, I'd like the rest of the committee to introduce themselves and we'll start to my far right with Senator Fox.

SENATOR FOX: Senator Nicole Fox, District 7, downtown and south Omaha.

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SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR WILLIAMS: Matt Williams, District 36, Dawson County, Custer County, and the north part of Buffalo County.

SENATOR CRAIGHEAD: Joni Craighead, District 6, Omaha.

SENATOR GLOOR: Mike Gloor, District 35, Grand Island.

SENATOR SCHEER: And our page today is Kaylee Hartman from Douglas, Nebraska. As I said earlier, we will be taking the bills up in the order that's listed with the following exception. Senator Schumacher is in front of Education right now. Depending on how quickly he would get back, we may jump over his, but as soon as he returns, then we will fall back into that line and pick that up at that point in time. And with that, I will turn the proceedings over to Vice Chair Williams.

SENATOR WILLIAMS: Thank you, Chairman Scheer. We will now open the hearing on LB758, which is Chairman Scheer's bill, if you'd like to step forward and introduce your bill.

SENATOR SCHEER: Thank you, Vice Chair Williams and committee members. My name is Jim Scheer, J-i-m S-c-h-e-e-r, representing Legislative District 19 in the Nebraska Legislature. I'm here before you today to present LB758. I introduce this legislation on behalf of the Director of Insurance to reinstate an old prohibition into the law that was inexplicitly...that explicitly prohibited limited liability companies from operating as insurers. This prohibition existed in the old Limited Liability Act until it was replaced by the current Nebraska Uniform Limited Liability Act of 2010. Additionally, the bill would prohibit a special purpose financial captive from establishing as a limited liability company or a partnership. Briefly a special purpose captive insurer is a domestic captive insurer that provides insurance or reinsurance protection to a counterparty. The counterparty is a domestic insurer that is either the special purpose captive insurance or an affiliated entity that cedes life insurance risk to the special purpose captive insurer. I know the Director of Insurance is here to testify as well and after me, and he will be able to answer any technical questions that you may have and, quite explicitly, probably any question you have. I've done my duty at this point. I will entertain any questions, I just may not answer any questions. (Laughter) [LB758]

SENATOR WILLIAMS: Are there questions for Senator Scheer? Hearing none, thank you. [LB758]

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SENATOR SCHEER: Wonderful. [LB758]

SENATOR WILLIAMS: We'll invite our first proponent. Welcome, Director. [LB758]

BRUCE RAMGE: (Exhibit 1) Thank you. Good afternoon. Good afternoon, Vice Chairman Williams and members of the Banking, Commerce and Insurance Committee. My name is Bruce Ramge, spelled B-r-u-c-e R-a-m-g-e, and I'm the Director of Insurance for the state of Nebraska. I am here today to testify in support of LB758. I would first like to take the opportunity to thank Chairman Scheer for introducing this legislation on behalf of the Department of Insurance. As Senator Scheer explained, LB758 is a relatively simple piece of legislation that would reinstitute an old prohibition on limited liability companies operating as insurers. The legislation also would prohibit special purpose financial captive insurers from establishing as an LLC or partnership. I would like to provide just a little bit of background on both of these changes. First, in 2010 the Legislature updated the limited liability company law with the Nebraska Uniform Limited Liability Act. The previous law had a prohibition on LLCs operating as insurers and the new law does not contain the prohibition. Unfortunately, the Department missed the removal of the prohibition and, in fact, it was not noticed until last year when a special purpose financial captive insurer tried to form as an LLC. This brings me to the special purpose financial captive insurer statute. LB758 is amending to remove the ability of these specialized insurers from forming as an LLC or partnership. A special purpose financial captive is a captive insurer that essentially provides reinsurance to the parent company. The statute enabling these entities to form in Nebraska became law in 2007. My understanding is that the language utilized was taken from South Carolina and included the ability for these insurers to form as LLCs and partnerships, but that the supporters of this law intended to form their captives as stock corporations. I'm not aware of any domestic insurer opposing this change. The Department of Insurance believes that while LLCs are sound organizations for less complex business entities, insurers require boards of directors, articles of incorporation, bylaws, and other corporate governance measures that simply do not exist for LLCs or partnerships. In fact, most of the insurance code dealing with the structure of insurers is geared towards insurers being either stock corporations or nonprofit stock corporations. Additionally, I am concerned about the ease at which an LLC ownership interest can transfer. I believe the transfer of insurers should be held to a higher standard. Thank you for the opportunity to testify in support of LB758 and I would gladly answer any questions the committee might have. [LB758]

SENATOR WILLIAMS: Thank you, Director Ramge. One quick question from me as we start. In your testimony you talked about a special purpose financial captive insurer tried to form as an LLC. What was the outcome of that? [LB758]

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BRUCE RAMGE: We do have one captive formed as an LLC. However, it was decided later by the holding company that they would not be using that. So there is one in Nebraska and they're aware of this proposed change and had no objections and we would work closely with them. [LB758]

SENATOR WILLIAMS: Thank you. Other questions? Senator Gloor. [LB758]

SENATOR GLOOR: Thank you, Chairman Williams. So when we're talking about...I mean, under the definition under (section) 44-103, does it speak specifically to life, property, casualty? I mean, what is the definition of insurer? [LB758]

BRUCE RAMGE: It would be all insurers, risk-bearing entities. You know, it would not...this prohibition would not include insurance agencies, but just... [LB758]

SENATOR GLOOR: But health...would health be included? [LB758]

BRUCE RAMGE: Health insurers, life insurers, property and casualty insurers. [LB758]

SENATOR GLOOR: Okay. Thank you. [LB758]

SENATOR WILLIAMS: Other questions? Seeing none, thank you, Director. [LB758]

BRUCE RAMGE: Thank you. [LB758]

SENATOR WILLIAMS: Invite the next proponent. Seeing none, anyone wishing to testify in opposition? Seeing none, anyone wishing to testify neutral on this piece of legislation? Seeing none, Chairman Scheer waives closing. We will close the public hearing on LB758. [LB758]

SENATOR GLOOR: An extremely well-run hearing. Thank you. [LB758]

SENATOR WILLIAMS: I like that waiving. [LB758]

SENATOR SCHEER: I would just simply note, when you have as well-written legislation as I introduced there usually is no questions. With that being said, Senator Schumacher is not here, so we will move to LB819. Senator Lindstrom. [LB819]

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SENATOR LINDSTROM: Good afternoon, Chairman Scheer and members of the Banking, Commerce and Insurance Committee. I'm Senator Brett Lindstrom, L-i-n-d-s-t-r-o-m, representing Legislative District 18 in northwest Omaha. I introduce LB819 at the request of the Director of Insurance. The legislation has two parts. First, it would adopt the Corporate Governance Annual Disclosure Act. The act would require all insurers based in Nebraska to annually file a confidential disclosure regarding its corporate governance practices with the Nebraska Department of Insurance. This is a model act of the National Association of Insurance Commissioners known as the NAIC. The act is intended to provide a great amount of flexibility to the insurers in the format and type of information provided in the disclosure as long as the insurer provides enough information to the department to permit it to gain an understanding of the insurer's corporate governance structure, policies and practices. The act provides for stringent confidentiality requirements because the disclosure will contain trade secrets and proprietary information and so that the information cannot be disclosed by the department except to share with other regulators, the NAIC and any consultants retained by the department. LB819 also updates the Risk Retention Act to add governance standards for risk retention groups, commonly referred to as RRGs. This change only applies to RRGs chartered in Nebraska, which the department informs me the current number is zero. The department likes to keep the RRG laws up to date should an RRG decide to charter in Nebraska. I know the director will be testifying after me and provide much more detail on this proposal. Thank you. And I'll be happy to take any questions. [LB819]

SENATOR SCHEER: Any questions for Senator Lindstrom? Seeing none, first proponent. Welcome, Director. [LB819]

BRUCE RAMGE: (Exhibit 1) Thank you. Chairman Scheer and members of the Banking, Commerce and Insurance Committee, my name is Bruce Ramge, spelled B-r-u-c-e R-a-m-g-e, and I am the Director of Insurance for the state of Nebraska. I'm here today to testify in support of LB819. I would like to express my gratitude to Senator Lindstrom for introducing LB819 on behalf of the insurance department's behalf. LB819 would adopt the Corporate Governance Annual Disclosure Act for insurers and amend the Risk Retention Act to provide governance standards for risk retention groups, commonly referred to as RRGs. Both changes are based upon model laws adopted by the National Association of Insurance Commissioners, known as the NAIC, and are vital to the department's continued accreditation through the NAIC. And accreditation is very important for the department and for the state because what that allows is for our financial regulation to be accepted by all other states and it allows the companies to be domiciled here without having to be worried about having to answer to fifty different state regulators for their financial solvency. The NAIC is the United States standard-setting and regulatory support organization created and governed by the chief insurance regulators from the fifty states, the District of Columbia and five United States territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate

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their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States. First, the Corporate Governance Annual Disclosure Act would require all insurers or insurance groups domiciled in Nebraska to file with the Department of Insurance a confidential disclosure regarding its corporate governance practices by June first annually. The act provides a great deal of flexibility to the insurer related to the type and format of corporate governance annual disclosure as long as the documents contain material information necessary to permit the department to gain an understanding of the insurer's corporate governance structure, policies, and procedures. If necessary, the department may ask for additional information to obtain a better understanding. Because the information provided by the insurers will include both trade secrets and proprietary information, LB819 contains strict confidentiality provisions so that the information cannot be shared outside of the department unless it is with other regulators, contracted third-party consultants, or the NAIC. The NAIC adopted this model law after significant discussions with the insurance industry and is another piece of the NAIC Solvency Modernization Initiative. The initiative is a critical self-examination update to the United States insurance solvency regulation framework. Previous work in updating Nebraska law in relationship to the initiative included the 2014 adoption of the principle-based reserving and the risk management and Own Risk and Solvency Assessment, ORSA, and in 2015, credit for reinsurance updates. One of the goals of this initiative is to move beyond regulators simply looking at just the numbers. As an example, the ORSA law requires insurers to report what types of risk the insurer is undertaking. LB819 will require insurers to report on how they make decisions on that risk. The information disclosed will be similar to the information that the department's examiners review during on-site examinations, which occur every four years. The annual disclosure will allow the department to keep closer track of any changes and will provide the opportunity to insurers for self-evaluation of their corporate governance practices. Self-evaluation has been one of the major benefits that the Financial Examination Division of the department has noticed with the filing of the ORSA reports. LB819 also amends the Risk Retention Act to place into law governance standards for risk retention groups licensed and chartered in this state. RRGs are companies owned by members with similar insurance needs that pool their risks and are creatures of both state and federal law. As opposed to normal insurance companies who must be licensed in every state in which it does business, RRGs are chartered and licensed in a home state and merely need to register in other states to do business. Currently, no RRG is chartered in Nebraska, but from time to time the Risk Retention Act is amended to keep the law up-to-date in case an RRG would decide to charter in Nebraska. Thank you, again, for the opportunity to testify in support of LB819. I would be happy to answer any questions the committee might have. [LB819]

SENATOR SCHEER: Thank you, Director. Any questions? Seeing none, thank you. [LB819]

BRUCE RAMGE: Thank you. [LB819]

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SENATOR SCHEER: Next proponent. Good afternoon. [LB819]

THOMAS MAYS: Good afternoon. My name is Thomas Mays, Vice President of Government Relations for Pacific Life Insurance, a Nebraska domestic company. We have been working with the NAIC and the Department of Insurance. [LB819]

SENATOR SCHEER: Excuse me, could you spell your name for us? [LB819]

THOMAS MAYS: Oh, M-a-y-s, Thomas. We've been working with the NAIC for over a year on this model act and with the department and we're here to support it. Uniformity among all 50 states is very important to us to make sure that all the states are adopting the same language. So we're here in support of the bill and we're already providing information to the director and this is just an annual disclosure statement. So do you have any questions? [LB819]

SENATOR SCHEER: Thank you. Any questions? Senator Williams. [LB819]

SENATOR WILLIAMS: Thank you and thank you, Mr. Mays, for being here and thank you for your company's commitment to being in Nebraska. We appreciate that. From your perspective, and doing the...are you doing these type of self-evaluations already? [LB819]

THOMAS MAYS: Yes, we provide...we're involved with the ORSA that the director had mentioned. In fact, we're in part of a study group with the NAIC to come up with the ORSA model and we've already provided our first one that goes throughout the whole analysis of risk assessment and the governance procedures and so forth on what we use. [LB819]

SENATOR WILLIAMS: So these requirements are not overburdensome on you or your industry? [LB819]

THOMAS MAYS: No, we're already providing the information and this is just basically an annual disclosure. [LB819]

SENATOR WILLIAMS: Thank you. [LB819]

SENATOR SCHEER: Any other questions? Thank you, Mr. Mays. Next proponent. Good afternoon. [LB819]

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JAN MCKENZIE: Senator Scheer, members of the Banking, Commerce and Insurance Committee. For the record, my name is Jan McKenzie, spelled J-a-n M-c-K-e-n-z-i-e. I'm the executive director of the Nebraska Insurance Federation, which is the Nebraska domestic industry. The Nebraska Insurance Federation members work very closely, as you heard from Mr. Mays, with the department on all of these types of modernization and uniformity issues to keep our industry in line and able to do business across multiple state lines in the manner in which saves them money and time and effort and makes sense. And we appreciate very much the companies...our department's willingness to work together with the industry to make those kinds of things happen. Years ago before you were all on this committee, Bill will remember, we had an issue where Nebraska almost...or had lost its accreditation and it was a very big issue for the industry and that is one of the most important pieces that Nebraska can take wherever they go and our companies can take wherever they do business is that we are an accredited state. And with that, I will just say, we are in support of LB819 and would appreciate the committee's advancement of the bill. [LB819]

SENATOR SCHEER: Thank you. Any questions? Seeing none, thank you very much. Any other proponents? Welcome. [LB819]

TAD FRAIZER: Good afternoon, Chairman Scheer and members of the committee. My name is Tad, T-a-d, Fraizer, F-r-a-i-z-e-r. I'm local counsel and lobbyist for the American Insurance Association, a national trade association of property and casualty firms. And just very briefly, I wanted to add our voice to the support for LB819. As previously indicated, the uniformity provided by NAIC acts as brought to you by the Department of Insurance is important to our members and we would encourage the advancement of the bill. I'll try to answer any questions you might have. [LB819]

SENATOR SCHEER: Thank you, Mr. Fraizer. Any questions? Seeing none, I guess you got off easy today. Any other proponents? Seeing none, are there any opponents that wish to testify? Finally, anyone in a neutral capacity that would like to testify? Seeing none, Senator Lindstrom waives closing and that will end the hearing on LB819 and with that, we will move to LB840, Senator Fox. [LB819]

SENATOR FOX: Good afternoon, Chairman Scheer and members of the Banking, Commerce and Insurance Committee. My name is Senator Nicole Fox, N-i-c-o-l-e F-o-x, and I represent Legislative District 7. LB840 was brought to me by the Nebraska Department of Insurance to harmonize the time frames in two separate laws, the Health Carrier Grievance Procedure Act and the Health Carrier External Review Act. These are the two laws that state health insurance carriers must provide a covered person an opportunity to appeal a denied health claim. The Health Carrier Grievance Procedure Act governs the internal appeal process that a covered

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person follows within the health carrier. The act provides the health carrier with 15 business days to respond to a request for an internal appeal. When an appeal is denied, a covered person in most cases can file an external review to be reviewed by an outside independent review organization, via the Department of Insurance governed by the Health Carrier External Review Act. However, this act states that a health carrier has 30 days to review an internal appeal before a covered person can file for external review. This is an error. LB840 fixes this error by correctly cross-referencing the two acts so that the 15 business day standard is utilized. My understanding is that this is current practice of the health insurance carrier industry. I know that the Director of Insurance will testify after me today and will be able to answer any of the more technical questions you may have. Thank you. [LB840]

SENATOR SCHEER: Thank you, Senator Fox. Any questions? Seeing none, first proponent. Welcome back. [LB840]

BRUCE RAMGE: (Exhibit 1) Good afternoon, again. Chairman Scheer and members of the Banking, Commerce and Insurance Committee, my name is Bruce Ramge, spelled B-r-u-c-e R-a-m-g-e, and I'm the Director of Insurance for the state of Nebraska. I am here today to testify in support of LB840. I'm grateful that Senator Fox introduced LB840 on the Department of Insurance's behalf. As Senator Fox stated, LB840 is a simple bill to harmonize the time frame the health carrier has to respond to an internal grievance filed by a covered individual before that individual can pursue an external review. These reviews are related to claim denials by health insurers. If a claim is denied by a health carrier, a covered person must exhaust the internal grievance process inside the health carrier before requesting an external review, which is a review of the health carrier's decision by an outside independent review organization. Requests for external review pursuant to the Health Carrier External Review Act are filed with the Department of Insurance, then forwarded to an outside independent review organization. Under the Health Carrier External Review Act, a covered person has the right to file an external review if the health carrier has not decided an internal appeal within 30 days. However, the Health Carrier Grievance Procedure Act provides the health carrier 15 business days to respond. LB840 would simply harmonize time frames in the two acts to the 15 business day standard by cross referencing the two acts. This is the current practice of the health carriers in Nebraska. Thank you for the opportunity to testify this afternoon. I'll be happy to answer any questions the committee might have. [LB840]

SENATOR SCHEER: Thank you, Director. Senator Gloor. [LB840]

SENATOR GLOOR: Thank you, Chairman Scheer. Mr. Director, I'm trying to look at definitions again. So what we had previously, 30 days following the date that the covered person or his or her authorized representatives filed a grievance with the health carrier. We're changing that to...is

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it 15 business days, or is the terminology going to be the same? I mean, with the 30 calendar days following the date the covered person and we now go to 15 business days? [LB840]

BRUCE RAMGE: I think it will be 15 business days, I believe, is how it will be referenced. [LB840]

SENATOR GLOOR: So, it's not far off of 30 days when you consider it's business days. But will we use the same terminology, authorized representative files a grievance with his or her carrier? [LB840]

BRUCE RAMGE: Yes, because the reference will just go back then to the internal appeal law. [LB840]

SENATOR GLOOR: Okay. Okay. Thank you. [LB840]

BRUCE RAMGE: Yes, you're welcome. [LB840]

SENATOR SCHEER: Any other questions for the Director? Seeing none, thank you very much. [LB840]

BRUCE RAMGE: Thank you. [LB840]

SENATOR SCHEER: Any other proponents? Any opponents that wish to speak? Anyone from a neutral position that would like to testify? Seeing none, Senator Fox waives closing, and that will end the hearing on LB840. Well, we're doing such a wonderful job right now, (laughter) but without somebody to introduce LB772, we may have come to a screeching halt. It has been so long I'm sure people would appreciate the opportunity to stretch their legs, so why don't we recess for about ten minutes and, hopefully, Senator Schumacher will return by then. [LB840]

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SENATOR SCHEER: Returning from the recess from the first three bills, we are now going to have Senator Schumacher introduce LB772. Senator Schumacher. Catch your breath and have at it. [LB772]

SENATOR SCHUMACHER: That's right. Thank you, Senator Scheer and members of the Banking, Commerce and Insurance Committee. I apologize for being a little late. I was tied up

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over in the Education Committee. And LB772 is...my name is Paul Schumacher, spelled S-c-h-u-m-a-c-h-e-r and I'm here today representing District 22 and introducing LB772. LB772 would address the group wide supervision of international insurance groups. I introduce this legislation on behalf of the Director of Insurance. This is a model law that was an updated from the National Association of Insurance Commissioners who has been working with insurance regulators and supervisors internationally to address the regulation and supervision of a large insurance group who are active in multiple countries. These types of insurance groups are important to the global economy and require close cooperation and communication between insurance regulators in multiple jurisdictions. Nebraska is a regulatory home of a few of these types of insurance groups. As a result, LB772 is needed to allow the Department of Insurance to continue to participate in the group wide supervision of these international insurance groups. This legislation allows the Director of Insurance to determine whether or not an insurance holding company system, which is a parent organization of insurance groups, which have one or more entities including insurers within it. The criteria for an international insurance group are as follows: premium written in three countries; international premium of at least 10 percent of gross premium; and total assets of at least \$50 billion or gross premiums of at least \$10 billion. If a holding company system does not meet the criteria, the legislation still allows the director to determine if the system is an international insurance group if it has significant international operations. This will allow for a holding company system to opt into this type of supervision if it is approaching the criteria levels or if the director determines that the holding company system requires this type of regulation. If a holding company system is determined to be an international group, LB772 allows it to have a group wide supervisor. The legislation explicitly allows for the director to serve as the group wide supervisor for certain international insurance groups and acknowledge over other chief insurance regulatory officials in other jurisdictions, both domestic and foreign, for other types of groups. LB772 creates the process for selection of the group wide supervisor and the spirit of the legislation is in cooperation between jurisdictions in the selection process. The bill provides the specific duties for the group wide supervisor of an international insurance group which include assessing enterprise risk within the group, requesting information from the group, and most importantly, coordinating and communicating with other regulators so that the regulatory and enterprise risk issues are timely identified and addressed by the international insurance group. The legislation also provides sufficient confidentiality requirements so that regulators of the international insurance group can communicate and coordinate without fear of their trade secrets and proprietary information falling into the wrong hands. The international insurance regulation is an important issue for Nebraska and our domestic insurance agent industry. LB772 will provide the Department of Insurance with the necessary tools to stay actively engaged in this area. Essentially, this is part of the ongoing system of trying to get a handle on insurance companies...large insurance companies who operate internationally and who have got to be effectively managed and effectively regulated particularly in view of what we learned from the problems in 2008 when there was not adequate supervision. So that would be my testimony. As you can tell, it was basically testimony that was

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prepared by the insurance department and they probably know what they're talking about far more than what I do. [LB772]

SENATOR SCHEER: Thank you, Senator Schumacher. Any questions? Seeing none, do you have to go back or are you here? [LB772]

SENATOR SCHUMACHER: I'm in the middle of that hearing over there and if I don't get back, I waive closing. [LB772]

SENATOR SCHEER: All right. Thank you, Senator. First proponent. Welcome, one last time. [LB772]

BRUCE RAMGE: (Exhibit 1) Good afternoon again. Chairman Scheer and members of the Banking, Commerce and Insurance Committee, my name is Bruce Ränge, spelled B-r-u-c-e R-a-m-g-e, and I'm the Director of Insurance for the state of Nebraska. I'm here today to testify in support of LB772 and I would like to express my gratitude to Senator Schumacher for introducing LB772 on the Department Of Insurance's behalf. LB772 amends the Insurance Holding Company System Act to provide the statutory authority for the Director of Insurance to act as, and participate in selection of, a group wide supervisor of an international insurance group. The changes to the act contained in LB772 are the latest updates to the Insurance Holding Company System Regulatory Model Act adopted by the National Association of Insurance Commissioners, known as the NAIC, and are vital to the department's continued accreditation through the NAIC. The NAIC is the United States standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and the five United States territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate the regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States. The beginnings of LB772 start with the NAIC and its participation in the regulation of insurance on the international level. The NAIC, along with federal financial regulators and international financial regulators, participate in an organization called the International Association of Insurance Supervisors, otherwise known as IAIS. The IAIS represents insurance regulators and supervisors from all over the globe and while it holds no regulatory power or authority, provides guidance and support in advancing the latest developments in international insurance regulation. In response to the 2008 global financial crisis, the IAIS revised its Insurance Core Principles to create new expectations for insurance supervisory systems and is working to create a common framework for the Supervision of Internationally Active Insurance Groups, which has been shortened to ComFrame. ComFrame has a goal of establishing a framework for regulators to address group wide activities and risks of internationally active insurers. These insurers, because

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of their size and international presence, require close coordination between regulators on an international level. As a result of Nebraska being the regulatory home for a number of these insurers, the department, especially our deputy director and general counsel, Christy Neighbors, has been deeply involved in the IAIS and the development of ComFrame. Under current law, regulators gather in supervisory colleges to discuss financial regulatory issues relating to these insurers. Each insurer that requires such a gathering has its own supervisory college. The supervisory college typically meets annually and involves regulators from both domestic and international jurisdictions that have a significant regulatory interest in the insurer, either as the regulator of a significant insurer in the group domiciled in the jurisdiction or the home of a significant amount of policyholders and premium. The regulators involved in the supervisory college meet first confidentially to discuss the regulation of the insurer and then senior management of the company is invited to brief the college and answer questions. LB772 will complement this regulatory process by allowing the Director of Insurance to act as a group wide supervisor and to participate in the selection of group wide supervisors of international insurance groups. A group wide supervisor is intended to be the chief insurance regulatory official of an international insurance group and to coordinate financial regulatory activities. This concept of group wide supervision arises out of the IAIS and ComFrame discussions and is the latest regulatory trend on the international level to encourage cooperation and communication between financial regulators. With that background, the actual nuts and bolts of LB772 are relatively simple. It amends the Insurance Holding Company System Act to add two provisions to the act related to the determination of an international insurance group and to allow the determination of a group wide supervisor. An international insurance group is an insurance holding company system that writes premiums in three countries, that has premiums outside of the United States of at least 10 percent of the system's total gross premiums, and that the total assets of the holding company system are at least \$50 billion, or the total gross premium is at least \$10 billion. As you can see, these are very large companies. Additionally, if a holding company system does not meet these factors, it is permitted to ask the department for a determination, or the department may determine on its own that the holding company system has significant international insurance business operations and is an international insurance group. If a holding company system is determined to be an international insurance group, then it may have a group wide supervisor. The legislation allows the director of insurance to serve as a group wide supervisor, or acknowledge another chief insurance regulatory official as the group wide supervisor. The legislation provides the framework for the selection of a group wide supervisor, which is intended to be done in the spirit of cooperation with both the international insurance group and other chief insurance regulatory officials. LB772 allows a group to ask for a group wide supervisor determination if it does not already have and creates a process for changing a group wide supervisor if necessary. The legislation also provides the duties for a group wide supervisor and, of course, provides for the confidentiality of any information provided to the department by the holding company system or international insurance group during the group wide supervisor process. I appreciate the patience of the committee as I explained the background of this

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legislation, and I'd be happy to answer any questions the committee might have. Thank you. [LB772]

SENATOR SCHEER: Wow. You just made it under five minutes. (Laughter) Any questions?
Senator Gloor. [LB772]

SENATOR GLOOR: Thank you, Chairman Scheer. Mr. Director, a few questions. So this is
NAIC model legislation. [LB772]

BRUCE RAMGE: Yes. [LB772]

SENATOR GLOOR: Is there anything in here that has you or has the department extemporizing
in any way to make this more Nebraska or fit better within the department, or is it really we're
just toeing the line with what we need to do, kind of the recommendations of the NAIC?
[LB772]

BRUCE RAMGE: Pretty much...not only the recommendations of the NAIC, but of the IAIS so
that the other countries will have a comfort level in that we have the appropriate regulatory
authority to act as a group supervisor. [LB772]

SENATOR GLOOR: And would it be safe to assume that under the Common Framework, the
ComFrame, there will likely be...there's a possibility that there will be annual changes in this to
make changes.... [LB772]

BRUCE RAMGE: Absolutely. This is an ongoing process of developing this framework and
they're working on additional aspects of supervision as well, such as group capital is one of the
areas that's under discussion. Classification of certain nontraditional or noninsurance type risks
that are administered by insurance companies. That's another topic that's currently being
reviewed, so it's an ongoing process. [LB772]

SENATOR GLOOR: And this legislation will also, by definition, have you as the group wide
supervisor, or it gives you the opportunity to identify one of your staff as our group wide
supervisor. [LB772]

BRUCE RAMGE: Yes. Currently, I mean, we are currently engaged in the supervisory college
process. We have a staff member who kind of specializes in this international analysis and
coordinates the information flow between the various regulators for those groups. [LB772]

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SENATOR GLOOR: And I thought I saw in here...I did, the sentence says the legislation, this legislation, provides the framework for the selection of a group wide supervisor. I'm assuming that means their training background. I mean, there's some degree of specificity built into this. [LB772]

BRUCE RAMGE: Yes, and I believe what that, Senator Gloor, what that's getting at more is to how to determine which jurisdiction is the group wide supervisor as opposed as to who within the department is...I think it would always be the director would always be nominally the group wide supervisor who then, you know, distributes the work to appropriate staff. But, for example, some large companies may have a lot of premium in one state, but their flagship company may be domiciled in another, and so it's the process of working with the other regulators to determine who is the appropriate group wide supervisor. [LB772]

SENATOR GLOOR: Okay. Thank you. [LB772]

BRUCE RAMGE: Thank you. [LB772]

SENATOR SCHEER: Thanks, Senator Gloor. Senator Williams. [LB772]

SENATOR WILLIAMS: Thank you, Senator Scheer. Thank you, Director. In your testimony, you mentioned that we are...Nebraska is a regulatory home for a number of these companies. Do you have an idea of approximately how many that is? [LB772]

BRUCE RAMGE: Well, right now, there are three very large insurance groups that operate internationally and they may have multiple companies within that group, but right off hand, currently there is three. And by having these laws kept up to date and our practices kept up to date, that allows companies who wish to become more active internationally to grow their business or to even domicile here if they so decide to. [LB772]

SENATOR WILLIAMS: And always that we are concerned about overregulation, in your judgment these companies are of the size and complexity that this type of regulation would not overburden them? [LB772]

BRUCE RAMGE: Correct. And it's to their benefit to be in a jurisdiction that can show international regulators that they're properly supervised and regulated. [LB772]

SENATOR WILLIAMS: Thank you. [LB772]

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BRUCE RAMGE: You bet. [LB772]

SENATOR SCHEER: Any other questions? Seeing none, thank you, Director. [LB772]

BRUCE RAMGE: Thank you, Senator Scheer. [LB772]

SENATOR SCHEER: Next proponent. Good afternoon and welcome. [LB772]

JOHN LAUGHBAUM: Good afternoon, Chairman Scheer and members of the committee. My name is John Laughbaum, spelled J-o-h-n L-a-u-g-h-b-a-u-m, and I'm vice president of government relations at AFLAC. AFLAC, as you may know, is a Nebraska domestic insurance company operating in Nebraska, across the United States, and has a significant presence in Japan. AFLAC supports LB772 for several reasons. This legislation helps strengthen Nebraska's leadership position internationally as the Department of Insurance works and coordinates with other state, federal, and international regulators. The international regulatory environment continues to evolve and this bill ensures Nebraska is consistent with the recently updated NAIC Model Holding Company Act as well as standards developed at the International Association of Insurance Supervisors, otherwise known as the IAIS. Nebraska has been instrumental and at the forefront in the international regulatory arena through Director Rame and the department's engagement with international, federal, and other state regulators. This includes being selected by the NAIC to represent state regulators in IAIS in related meetings and dialogues. The director also serves as a lead regulator for some Nebraska domestics that have supervisory colleges, including AFLAC. And deputy director Christy Neighbors has been recognized with the prestigious NAIC Dineen award for her efforts. The department is clearly one of the leading state regulators on international issues and has an excellent reputation amongst both international and state regulators. Finally, LB772 is particularly important to AFLAC given our unique corporate structure and large presence in Japan. As I mentioned, the Nebraska Department of Insurance serves as the lead regulator and this bill further solidifies their supervisory role. Thank you, Chairman Scheer and members of the committee, and thanks to Senator Schumacher for introducing LB772, and Director Rame for your support of the legislation. I'm happy to answer the committee's questions. Thank you. [LB772]

SENATOR SCHEER: Thank you. Any questions? Thank you for taking the time and coming down this afternoon. [LB772]

JOHN LAUGHBAUM: Thank you. [LB772]

SENATOR SCHEER: Welcome back, Mr. Mays. [LB772]

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THOMAS MAYS: Thank you. My name is Thomas Mays, T-h-o-m-a-s M-a-y-s. I'm vice president of government relations for Pacific Life Insurance Company. We are one of the large holding companies that the director had mentioned. We have a subsidiary in England that does reinsurance around the world, and keeping Nebraska as a lead regulator, like if we were to do a supervisory college, is really very important to us, especially now that we're doing business in Australia and Singapore and some of the other countries. It's a lot...you know, it's becoming to the point where we would probably have a supervisory college at some point, so we would definitely want Nebraska to be the lead regulator and this legislation would allow that to happen. [LB772]

SENATOR SCHEER: Thank you. Senator Gloor. [LB772]

SENATOR GLOOR: Thank you, Chairman Scheer. Mr. Mays, the term has been used several times and I'd like a little better understanding and that's supervisory college. Is there a way to explain what that means? [LB772]

THOMAS MAYS: What would happen is, if a supervisory college is...and Christy could probably come up and explain it better than I can, but if a college is called, it would include every regulator that regulates you around the world. So, and Nebraska would be the lead regulator, so we have regulators in Australia, England, Canada, Singapore and a couple of other places, so they would all be called in as a regulator that regulates parts of our business. [LB772]

SENATOR GLOOR: And we'd be the lead regulator because you're domiciled here? [LB772]

THOMAS MAYS: That's correct. [LB772]

SENATOR GLOOR: Okay. Thank you. [LB772]

SENATOR SCHEER: Thank you, Senator Gloor. Any other questions? Seeing none, thank you, Mr. Mays. Any other proponents? I think you want to leave that pink with her, too, don't you? [LB772]

JAN MCKENZIE: Oh, I should, shouldn't I? [LB772]

SENATOR SCHEER: Probably. [LB772]

JAN MCKENZIE: Now, I have nothing. [LB772]

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SENATOR SCHEER: There we go. I hope you have your notes in your head. [LB772]

JAN McKENZIE: (Exhibit 2) Senator Scheer, members of the committee, for the record, my name is Jan McKenzie, spelled J-a-n M-c-K-e-n-z-i-e. I'm the executive director for the Nebraska Insurance Federation and am very pleased to have two of my members here today to be supportive of the legislation that the department has introduced. I know I've told many of you over and over and over how important the industry of insurance is to Nebraska, but we are highly, highly respected around the nation and world as a good Department of Insurance and a good state to do business in. And we are very supportive of the legislation that allows our department to continue to be the regulator, LB772. I would not...I would entertain questions, but probably not be able to answer them. I'm taking the lead of our leader. [LB772]

SENATOR SCHEER: I know how to...I know how it goes. [LB772]

JAN McKENZIE: Thank you. That's a good line. [LB772]

SENATOR SCHEER: Any questions? Seeing none, thank you. [LB772]

JAN McKENZIE: Thank you. [LB772]

SENATOR SCHEER: Any other proponents? Welcome back. [LB772]

TAD FRAIZER: Good afternoon, Chairman Scheer, again. My name is Tad Fraizer, that's T-a-d F-r-a-i-z-e-r, representing the American Insurance Association, a national trade association of property and casualty firms. Again, briefly, AIA supports the department's legislation, LB772, regarding group wide supervision language in the holding company regulatory act. While we initially had some concerns that the provisions didn't exactly conform to the NAIC model language, after having discussions with the Nebraska department we believe the bill's provisions are equivalent to the model language and achieve the same outcome as desired in the model language, and we certainly understand the department's reasons for the tweaks it has made and we have no objections and do support the bill. And we'd also like to thank the Nebraska department for its willingness to communicate with us concerning our questions concerning LB772. And I would be happy to try, probably unsuccessfully, to answer any questions you might have about LB772. [LB772]

SENATOR SCHEER: Thank you. Any questions? Seeing none, thank you, Mr. Fraizer. Any other proponents? Any opponents? Anyone wishing to testify in a neutral capacity? Going,

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going, gone. All right. And Senator Schumacher has waived his closing and that will end the hearing on LB772 and that is the final bill that we will listen to this afternoon. [LB772]