



March 31, 2015

Representative Kurt Olson, Chair
House Labor and Commerce Committee
State Capitol Room 208
Juneau AK, 99801

Re: HOUSE BILL 164- SUPPORT INSURANCE RISK MANAGEMENT AND HOLDING COMPANIES

Dear Representative Olson:

The American Insurance Association (AIA), National Association of Mutual Insurance Companies (NAMIC), and the Property Casualty Insurers of America (PCI) (hereinafter "the trades") appreciates and supports Director Lori Wing-Heier's thoughtful efforts to revise state law to comply with the National Association of Insurance Commissioner's (NAIC's) Own Risk Solvency Assessment Model Act (ORSA) for accreditation purposes.

Although HB 164 does not perfectly model the language of the NAIC ORSA Model Act word for word, the proposed legislation does appropriately address the key issues, and the Director recently met with representatives of NAMIC and PCI to explain how the proposed legislation addresses insurer concerns about protecting the confidentiality of insurers' trade secrets, proprietary information, and intellectual property rights.

Confidentiality protections are paramount to insurers, because they help facilitate pro-consumer market competition, and ambiguity in this section could adversely impact how other state regulators interact with the Alaska Division of Insurance. State regulators with strong confidentiality protect laws are reasonably apprehensive about sharing confidential and proprietary information with state regulators that do not afford similar protections to insurers. The Director's explanation to the trades about how the Alaska statutes cited in the proposed legislation provide comparable protections for insurers to those expressly stated in the NAIC ORSA Model Act have resolved the trades' initial concerns with the proposed legislation.

The trades also appreciate how the Director has clarified to the trades that the ORSA framework articulated in the proposed legislation applies *only* to Alaska domestic insurers and that filings will be on an annual basis.

In sum, we respectfully requests passage of HB 164. If you have questions or comments, feel free to contact anyone of us: Armand Feliciano, ACIC Vice President (PCI / 916-205-2519/ armand.feliciano@pciaa.net), Christian Rataj, Senior Director (NAMIC/ 303-907-0587/ crataj@namic.org), or Steve Suchil, Vice President (AIA/ 916-718-9568/ ssuchil@aiaadc.org). We appreciate your consideration of these issues and look forward to working with you.

cc. Director Lori Wing-Heier at lori.wing-heier@alaska.gov



March 24, 2015

**Representative Kurt Olson
Chairman House Labor and Commerce Committee
120 4th Street, Juneau, AK 99801**

RE: HB 164 Insurance; Risk Management and Holding Companies

Dear Chairman Olson,

Aetna would like to express our support for HB 164 Insurance; Risk Management and Holding Companies, which will ensure that the current accreditation statutes are updated to 2015 standards. As of now, several model laws are out of date and this bill will allow those statutes to be updated using model language from the National Association of Insurance Commissioners (NAIC).

The Alaska Division of Insurance is up for accreditation in 2017, and passage of this bill will go a long way to ensure that the Division is successful in maintaining their accreditation from the NAIC.

Sincerely,

A handwritten signature in black ink, appearing to read "Shannon Butler", written over a horizontal line.

**Shannon Butler
Aetna Senior Director of Government Affairs for the West Region**

CC: Director Lori Wing-Heler

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Brief Explanation of Risk Based Capital
(Company Action Risk Based Capital Example)
(Reference (AS 21.14.200(5)))

Explanation of RBC – Overview and underlying reason

Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the minimum capital requirement in which the degree of risk taken by the insurer is the primary determinant. RBC limits the amount of risk a company can take. It requires a company with a higher amount of risk to hold a higher amount of capital. Capital provides a cushion to a company against insolvency.

A company's risk-based capital is calculated by applying factors to various asset, premium and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of a company's actual capital may then be measured by comparison to its risk-based capital as determined by the formula.

Risk-based capital standards will be used by regulators to set in motion appropriate regulatory actions relating to insurers that show indications of weak or deteriorating conditions. It also provides an additional standard for minimum capital requirements that companies should meet to avoid being placed in conservatorship.

RBC is usually expressed as a **risk based capital ratio**. This is the total capital of the company (as determined by the RBC formula) divided by the company's risk-based capital (as determined by the formula). For example a company with a 200% RBC ratio has capital equal to twice its risk based capital.

RBC Ratio is the main test used to determine whether a company's capital level is adequate given the size and degree of risk that firm has taken.

Total Risk-Based Capital is determined by the formula that multiplies risk factors by some measure of volume for each risk class, and adds together the resulting risk requirements.

Total Adjusted Capital is made up primarily of capital and surplus.

$$\text{RBC Ratio} = \frac{\text{Total Adjusted Capital}}{\text{Total Risk-Based Capital}}$$

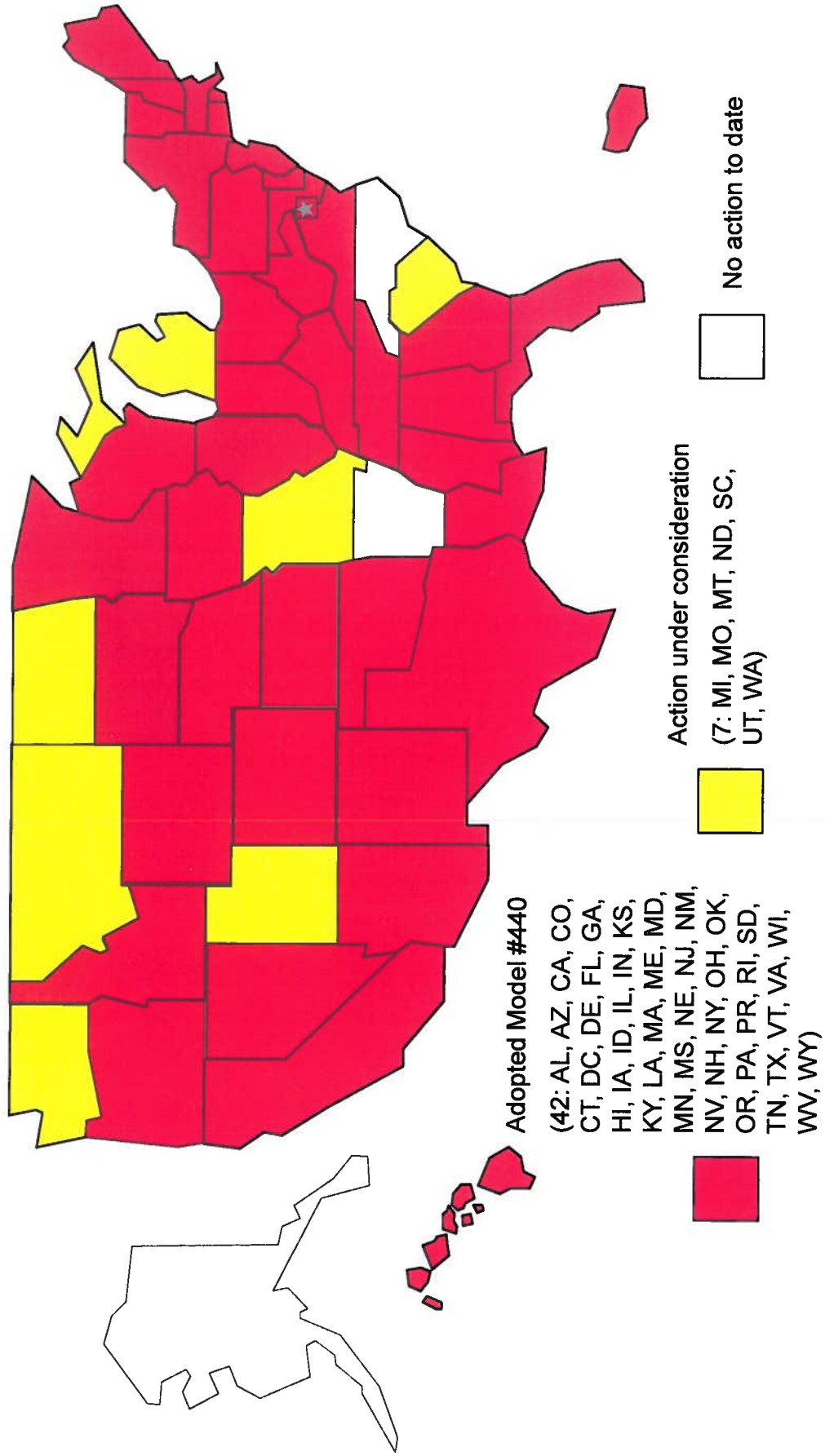
The NAIC RBC formula generates the regulatory minimum amount of capital that a company is required to maintain to avoid regulatory action. There are four levels of action that a company can trigger under the formula:

- company action,
- regulatory action,
- authorized control, and
- mandatory control levels.

Each RBC level requires some particular action on the part of the regulator, the company, or both. For example, an insurer that breaches the Company Action Level must produce a plan to restore its RBC levels. This could include adding capital, purchasing reinsurance, reducing the amount of insurance it writes, or pursuing a merger or acquisition.

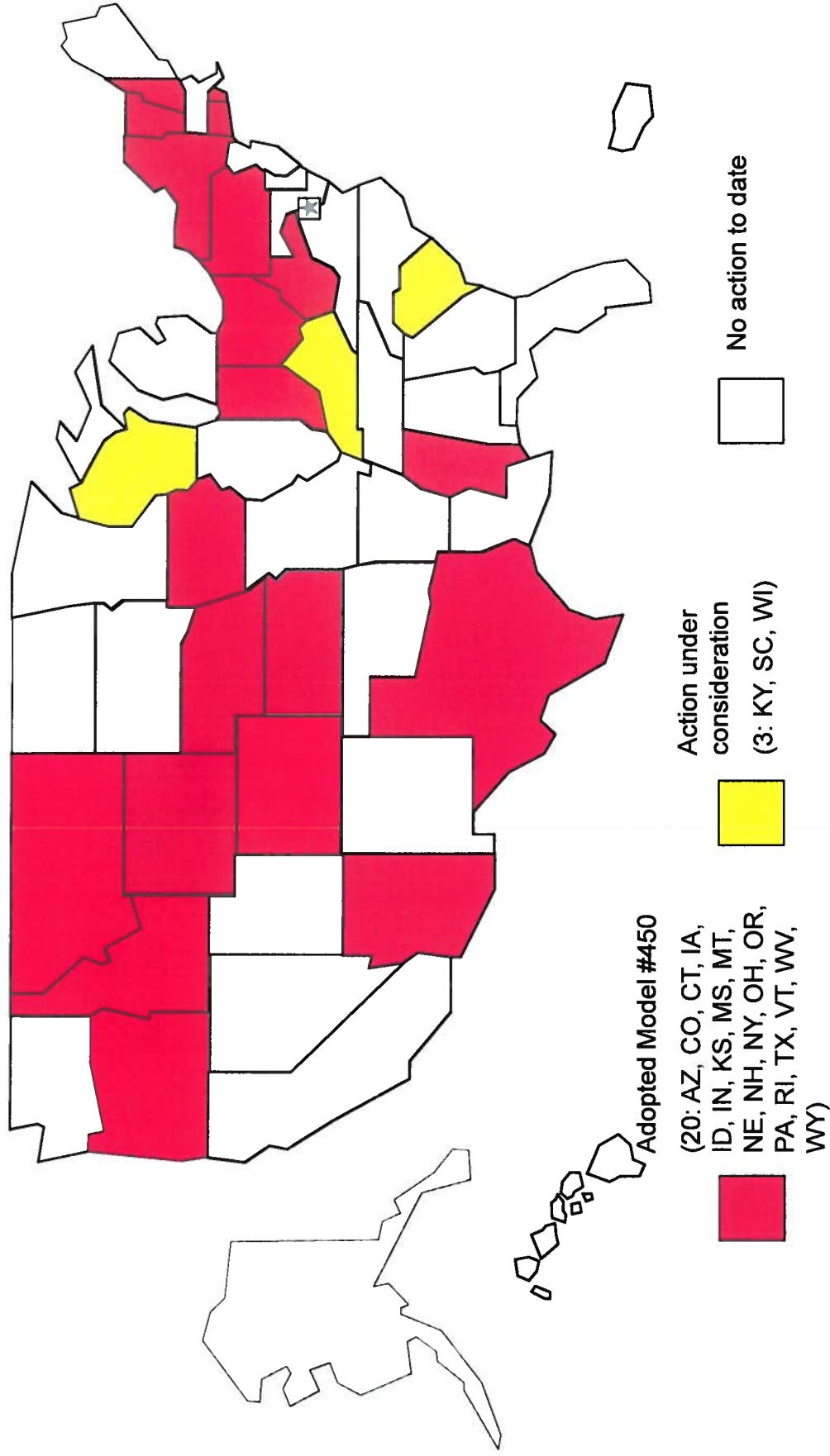
HB 164 uses factors for negative trend test calculations. The factors are numbers used in the RBC calculations. For example, if a life and health insurer has Total Adjusted Capital (calculated) that is greater than or equal to its Company Action level risk based capital (calculated in the formula), but less than 3 times the company's authorized control level risk based capital, this would indicate a "negative trend".

Implementation of 2010 Revisions to Model #440 Insurance Holding Company System Regulatory Act [status as of March 1, 2015]



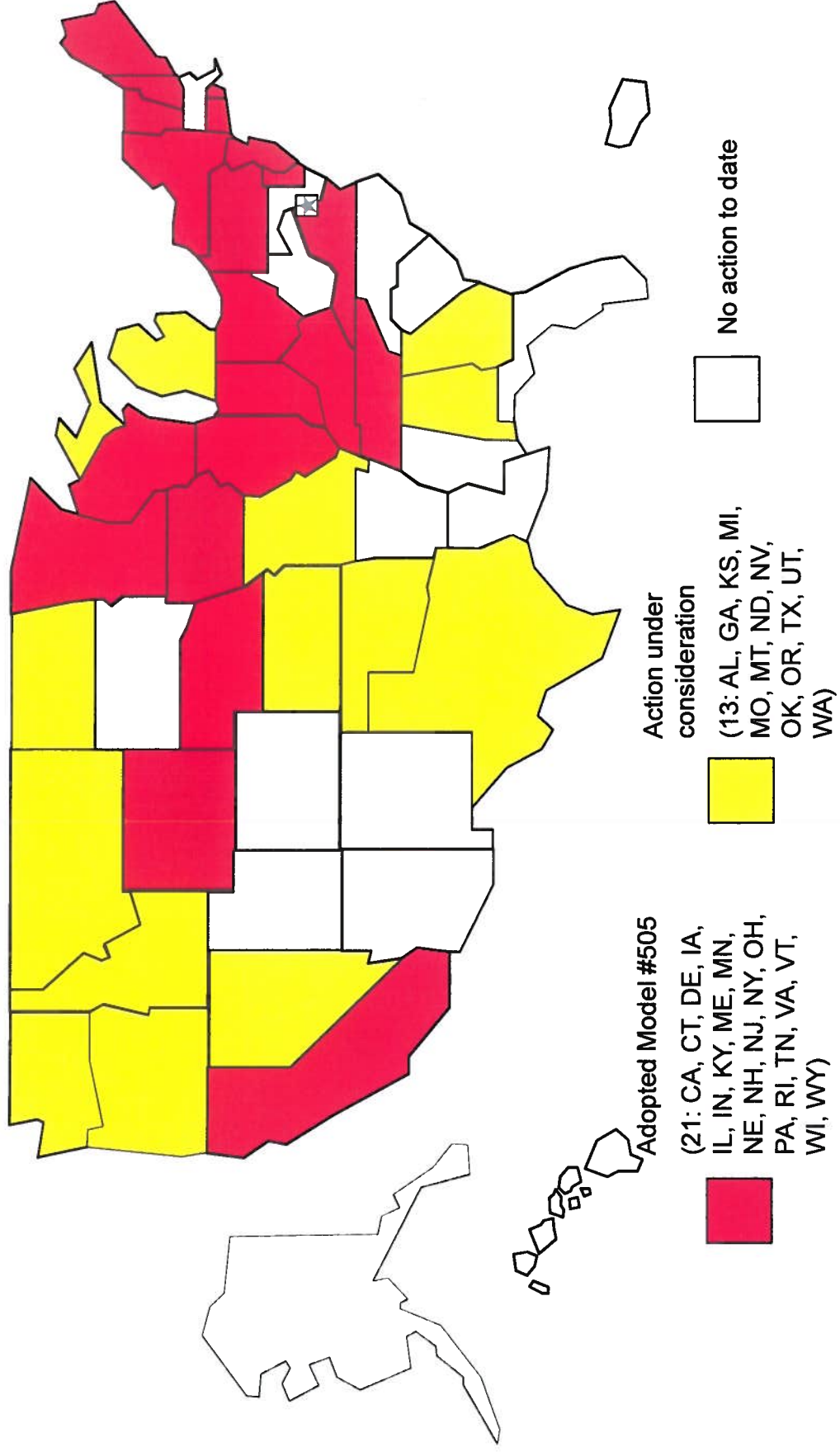
This map represents state action or pending state action regarding NAIC amendments to the model(s). This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of NAIC amendments to the model(s) or whether a state meets any applicable accreditation standards.

Implementation of 2010 Revisions to Model #450 Insurance Holding Company System Model Regulation [status as of March 1, 2015]



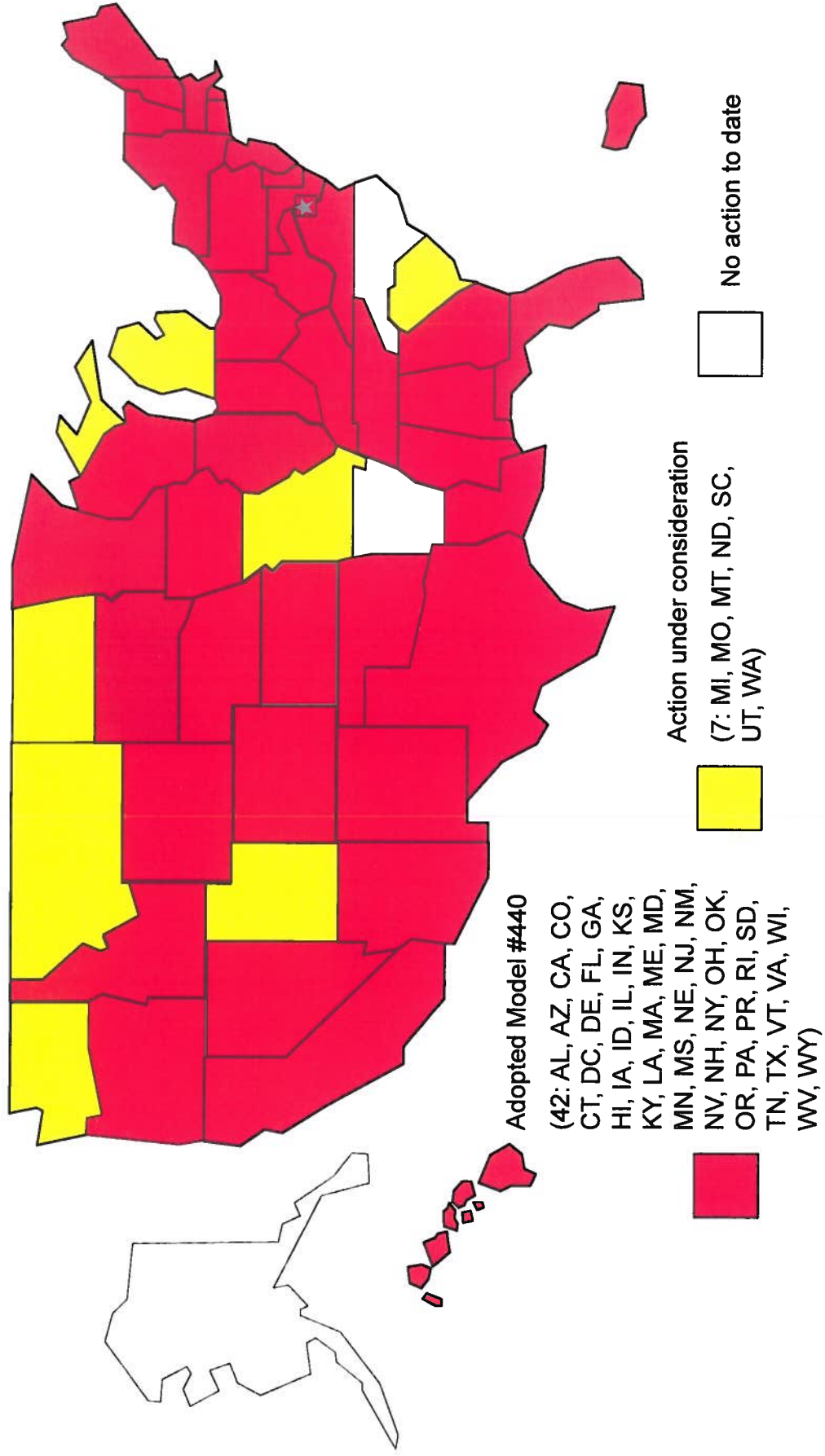
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Implementation of Model Act #505 Risk Management and Own Risk and Solvency Assessment Model Act [status as of March 1, 2015]



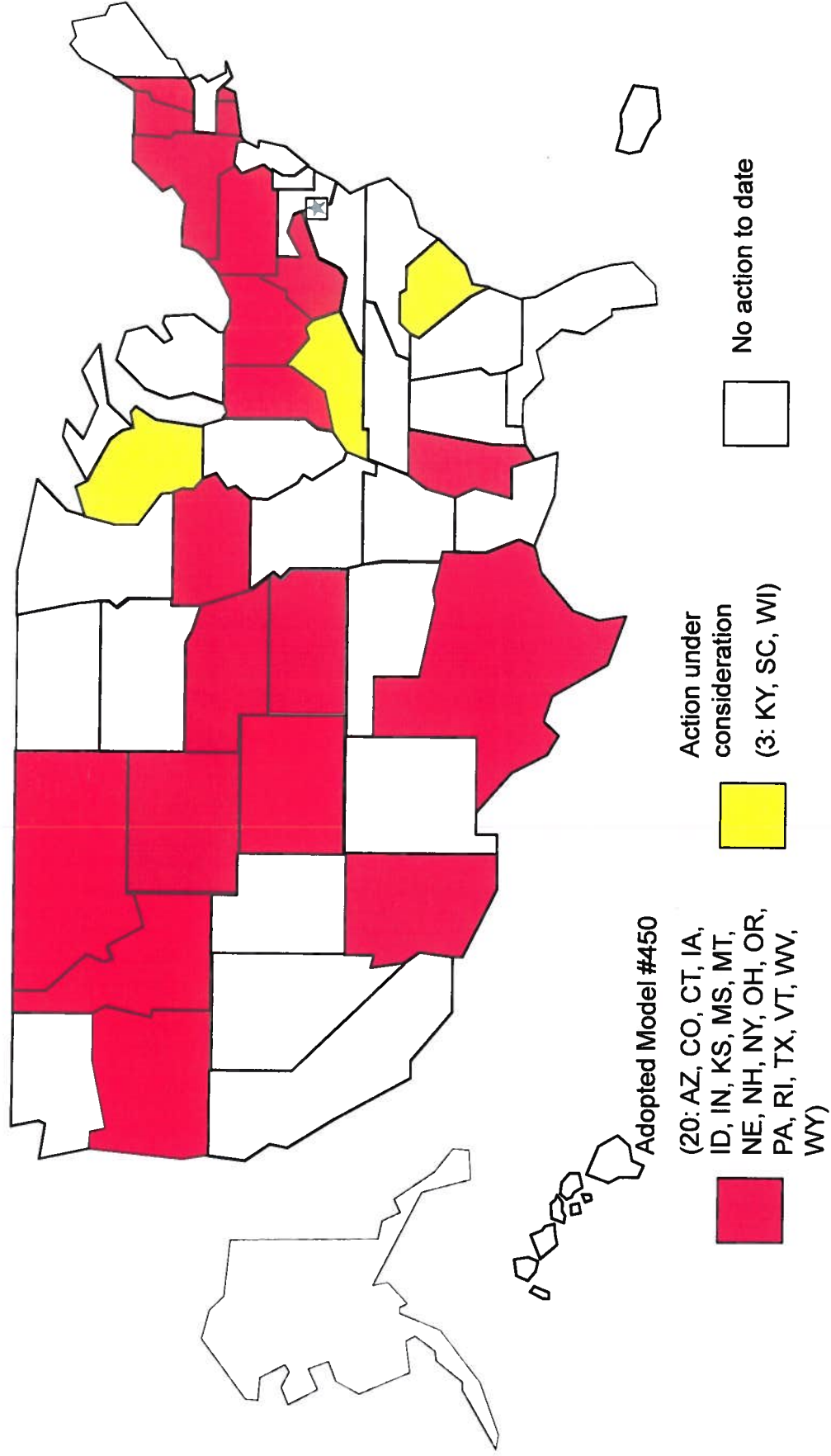
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Implementation of 2010 Revisions to Model #440 Insurance Holding Company System Regulatory Act [status as of March 1, 2015]



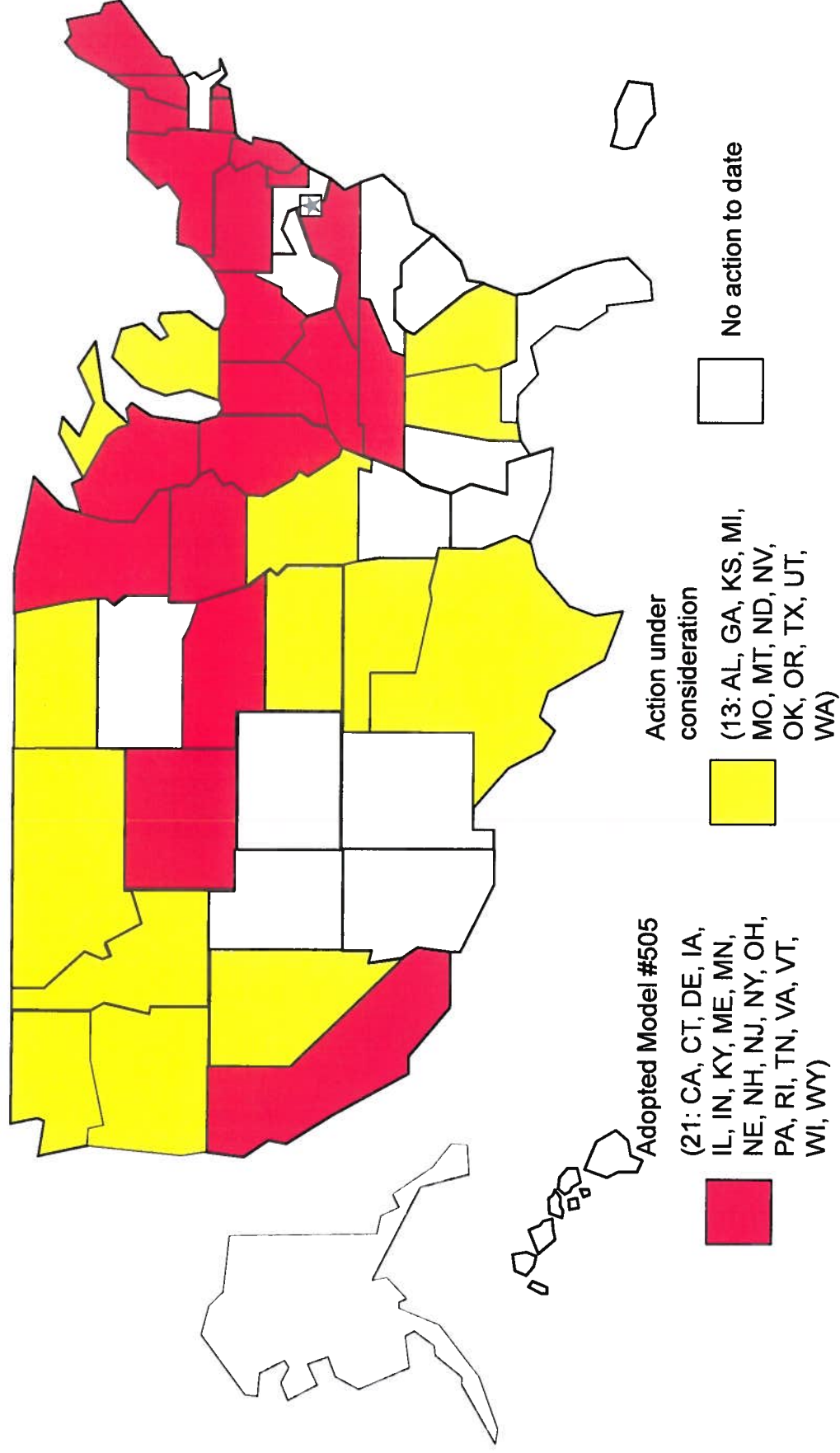
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Implementation of 2010 Revisions to Model #450 Insurance Holding Company System Model Regulation [status as of March 1, 2015]



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Implementation of Model Act #505 Risk Management and Own Risk and Solvency Assessment Model Act [Status as of March 1, 2015]



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