

**STATE
FISCAL IMPACT**

Drafting Number: LLS 14-1063	Date: April 28, 2014
Prime Sponsor(s): Sen. Cadman; Aguilar Rep. Sonnenberg; Kraft-Tharp	Bill Status: Senate SVMA Fiscal Analyst: Alex Schatz (303-866-4375)

SHORT TITLE: REQUIRE INS COMMR PREEXAM DRAFT REPORT CONFERENCE

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue		
State Expenditures	Potential increase. See State Expenditures section.	
FTE Position Change		
Appropriation Required: None.		

* This summary shows changes from current law under the bill for each fiscal year.

Summary of Legislation

Under current law, regulation of insurance by the Division of Insurance (DOI) in the Department of Regulatory Agencies (DORA) includes authority to examine the activities, operations, financial conditions, and affairs of insurance businesses. This bill requires such examinations to include:

- a preexamination conference; and
- an additional conference at least 30 days prior to the filing of a draft examination report.

Conferences required by the bill must follow relevant guidelines in the National Association of Insurance Commissioners (NAIC) market conduct examiner's handbook. Conferences include the Commissioner of Insurance and the insurer subject to examination, and must be coordinated with the issuance of certain draft reports required by current law.

Background

As defined by statute, examinations conducted by the DOI include formal financial examinations, market conduct examinations, and informal investigations to determine an insurer's compliance with insurance regulations. Under current law, the DOI makes written reports at the conclusion of financial and market conduct examinations, and a preexamination conference is required for target on-site examinations.

The DOI regulates approximately 1,640 insurers. From this population of regulated insurers, the DOI performs approximately 10 market conduct examinations and 10 financial examinations per year, with informal examinations of a relatively small number of insurers, particularly follow-up with insurers recently subject to examinations.

Within the last four years, the Attorney General's Office (AG) has defended multiple cases against the DOI related to financial examinations and market conduct actions. Based on extensive discovery and motions advocacy, the state's cost of litigation has exceeded \$100,000 per case in some of these recent insurance cases.

State Expenditures

The bill potentially increases workload and expenditures in the Department of Law and DORA.

Assumptions. Based on the size of the insurance market and DORA's appropriated resources, the DOI engages in fewer than 30 examinations per year that are subject to the bill. The Commissioner of Insurance must attend all conferences required by the bill.

Department of Regulatory Agencies. The DOI will experience a minimal workload increase to adhere to the bill's procedural requirements, providing access to the Commissioner of Insurance in 30 to 50 conferences per year. Complying with this requirement may require adjustment of work assignments with the DOI. If a significant increase in litigation or DOI workload occurs as a result of the bill, any need for additional resources will be addressed in the annual budget process.

Department of Law. The Department of Law represents the DOI and the Commissioner of Insurance in his or her quasi-judicial role enforcing insurance regulation. The bill potentially adds new issues requiring legal representation of the DOI or the Commissioner. Any increase in resources required by the Department of Law will utilize funds reappropriated from the legal services budget line in DORA and will be addressed in the annual budget process.

Effective Date

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Regulatory Agencies
Judicial Department

Personnel and Administration
Law