

ADMINISTRATIVE RULES Fiscal Estimate & Economic Impact Analysis

1. Type of Estimate and Analysis

Original Updated Corrected

2. Administrative Rule Chapter, Title and Number

Ins 16.01 and ch. 40

3. Subject

Holding Company Reporting for Insurers

4. Fund Sources Affected

GPR FED PRO PRS SEG SEG-S

5. Chapter 20, Stats. Appropriations Affected

None

6. Fiscal Effect of Implementing the Rule

No Fiscal Effect Increase Existing Revenues Increase Costs
 Indeterminate Decrease Existing Revenues Could Absorb Within Agency's Budget
 Decrease Cost

7. The Rule Will Impact the Following (Check All That Apply)

State's Economy Specific Businesses/Sectors
 Local Government Units Public Utility Rate Payers
 Small Businesses (if checked, complete Attachment A)

8. Would Implementation and Compliance Costs Be Greater Than \$20 million?

Yes No

9. Policy Problem Addressed by the Rule

This rule will adopt two new reporting requirements related to insurance holding company systems. First, the proposed rule will create a new enterprise risk report that will be filed for insurers that register as a holding company. This confidential report will identify risks within the holding company system that may have an effect on the solvency of the insurer. Currently there is no reporting with OCI that directly addresses the risk related entities could have on an effect on insurer's solvency. The second reporting requirement added is a preacquisition notice. The preacquisition notice is a filing made prior to a person obtaining control of an insurer. The preacquisition notice will identify when an acquisition may cause market concentration and have a substantial effect on competition. OCI currently has the authority to consider how a change in control will affect competition in determining whether to approve a change in control. The preacquisition notice will add specific market concentration standards for determining whether there is market concentration. One additional change in the rule is to add a small surcharge to examination fees for insurers that are subject to a supervisory college. Supervisory colleges are a forum for domestic and international regulators to discuss the regulation of a holding company system with domestic and international operations. The surcharge is intended to capture the additional costs bore by the office in participating in a supervisory college.

10. Summary of the businesses, business sectors, associations representing business, local governmental units, and individuals that may be affected by the proposed rule that were contacted for comments.

OCI solicited comments generally through publication requesting comments from the public utilizing the OCI website. In addition, OCI solicited comments from the following businesses and associations:

Alliance of Health Insurers;
American Family Insurance;
Benefit Services Group;
Blue Cross Blue Sheild of Wisconsin/Wellpoint;
Capitol Consultants;
Capitol Navigators;
Catholic Financial Life;

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Hamilton Consulting;
Humana;
Independent Insurance Agents of Wisconsin
Johnson Insurance;
Liberty Mutual Insurance;
Martin Schreiber Associates;
Medical College of Wisconsin;
Ministry Health Care;
National Association of Insurance and Financial Advisors;
National Federation of Independent Businesses;
Network Health;
Northwestern Mutual Insurance
Professional Insurance Agents of Wisconsin;
Sentry Insurance;
State Farm Insurance;
The Alliance;
Thrivent Financial;
WEA Trust;
Wisconsin Association of Health Plans;
Wisconsin Association of Health Underwriters;
Wisconsin Chiropractic Association;
Wisconsin Council of Life Insurers;
Wisconsin Counties Association;
Wisconsin Hospital Association;
Wisconsin Insurance Alliance;
Wisconsin Manufacturers and Commerce;
Wisconsin Municipal Mutual Insurance Corporation;
Wisconsin Physicians Service Insurance Corporation;
Wisconsin Primary Health Care Association; and
Wisconsin Restaurant Association.

OCI received two comments. One comment received from the Wisconsin Council of Life Insurers indicated that the new filing requirement would have a small fiscal cost for insurers and overall the economic impact of the rule would be minimal. A second comment received from Sentry Insurance made no comment on the economic impact of the rule but did make two comments on the substance of the rule. Those comments will be addressed after the text of the rule is exposed for comment and hearing.

11. Identify the local governmental units that participated in the development of this EIA.
None

12. Summary of Rule's Economic and Fiscal Impact on Specific Businesses, Business Sectors, Public Utility Rate Payers, Local Governmental Units and the State's Economy as a Whole (Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule will have small implementation and compliance costs. With regard to the enterprise risk filing, holding companies required to make the filing will have an additional form to file annually. Initially, they will have to familiarize themselves with the information needed and collect that information. This will have a small cost in terms of staff time for the insurers required to make the filing. It is unlikely that insurers will have to hire additional staff or contract with outside entities to comply. The Wisconsin Council of Life Insurers indicated in its comments that the fiscal

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cost for making the new filing will be small.

With regard to the new preacquisition notice, this filing will only be made by parties who are seeking to acquire an insurer and only if the result of the acquisition would be an increase in the market share as the result of the proposed transaction above certain thresholds. The information that needs to be provided, i.e. information on market concentration, will likely be information that the acquirer obtains while conducting due diligence prior to the transaction. Obtaining the information and filing the form will add additional time to the process of acquiring control of an insurer but the effect is anticipated to be minimal. The filing should not require the hiring of additional staff or consultants and the economic effect of this filing requirement is expected to be minimal.

With regard to the surcharge to examination fees for supervisory colleges, the surcharge is anticipated to be less than 1% of the annual examination charge imposed on insurers. The total examination fees that are charged to the industry are based on the costs incurred by the office in conducting financial oversight. Thus, the total examination fees on the industry will not change only the method for allocating those expenses will change. For insurers subject to the surcharge they will see a relatively small increase in their annual examination assessment. Insurers who are not subject to a supervisory college will see a small decrease in their annual examination assessment. The impact of the surcharge on the insurance industry as a whole will be zero and the impact on individual insurers will be minimal.

13. Benefits of Implementing the Rule and Alternative(s) to Implementing the Rule

The objective of the implementation of the enterprise risk report and other reporting changes is to better evaluate the risks to an insurer's solvency in an insurance holding company system. Wisconsin's current rule generally follows the NAIC Insurance Holding Company System Regulatory Model Act (Model Act) and Insurance Holding Company System Model Regulation (Model Regulation). The NAIC recently made changes to its Model Act and Model Regulation to modernize the regulation by better addressing transactions involving complex insurance holding company organizations and insurers licensed in multiple jurisdictions. Wisconsin must adopt certain of those changes in substantively the same form as the NAIC Model Act and Model Regulation if the Wisconsin Office of the Commissioner of Insurance (OCI) is to remain a state insurance regulatory agency that is accredited by the NAIC. It is a goal of the OCI and a benefit to domestic insurers for OCI to maintain its accreditation because as an NAIC accredited state, domestic insurers are only subject to certain filing requirements with OCI and financial examination by OCI. Without accreditation, domestic insurers could be subject to financial examination and filing requirements for all jurisdictions in which they operate. This could include examination from all 51 U.S. jurisdictions for some insurers. As an accredited state, domestic insurers are only subject to certain filing requirements with OCI and financial examination by OCI. Without accreditation, domestic insurers could be subject to financial examination and filing requirements for all jurisdictions in which they operate. This could include examination from all 51 U.S. jurisdictions for some insurers. In addition, the changes are similar to those adopted or that will be adopted in other states and work to promote uniformity for insurance holding company systems operating across multiple states.

The alternative would be to not adopt the changes and for OCI to forfeit its accreditation. Without accreditation, the cost of doing business for Wisconsin's domestic insurance industry would increase because their regulation by other states would increase including the requirement that they file an enterprise risk report in other jurisdictions.

The objective of the addition of a preacquisition notice is to provide standards for determining when a market is concentrated, i.e. dominated by a few insurers, and to determine when an insurer acquisition will substantially lessen competition. OCI may currently consider the effect a change of control of an insurer will have on competition but there are no standards as to when a market is considered concentrated. The adoption of this rule will promote transparency as it will outline when a market is presumed to be concentrated. A concentrated market does not automatically mean that OCI will not approve a transaction but will subject the proposed acquisition to greater scrutiny regarding its effect on

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competition.

The alternative is for OCI to continue with its current law which allows the effect on competition to be considered in a change in control but does not outline any standards as to how OCI will determine when there will be a lessening of competition.

The object of the addition of the supervisory college surcharge is to apportion the examination costs associated with OCI participation in a supervisory college to those insurers who are subject to a supervisory college. This will lead to a more fair distribution of examination costs. The alternative is to keep with the current examination cost allocation which will lead to insurers who are not part of a supervisory college absorbing a portion of the cost for OCI's participation in a supervisory college.

14. Long Range Implications of Implementing the Rule
None

15. Compare With Approaches Being Used by Federal Government

OCI is not aware of any existing or proposed federal regulations intended to address the activities to be regulated by the proposed rule change.

16. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)
Similar requirements have been enacted in neighboring states.

Illinois: 215 Ill Comp. Stat. §§ 5/131.1-131.30
Iowa: Iowa Code ch 521A
Michigan: Mich. Comp. Laws §§ 500.1301-1379
Minnesota: Minn. Stat. ch. 60D

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ATTACHMENT A

1. Summary of Rule's Economic and Fiscal Impact on Small Businesses (Separately for each Small Business Sector, Include Implementation and Compliance Costs Expected to be Incurred)

The proposed reporting requirements in the rule would only apply to insurers that are part of a holding company system and insurers that are part of a holding company system would not usually meet the definition of a small business. There are a few small insurers that own insurance agencies that may meet the definition of a small business but the number of insurers in this category is small. To the extent there are small insurers that are required to file the enterprise risk report, the economic impact on those insurers is expected to be minor. The information that needs to be reported on the enterprise risk report scales with the complexity of the holding company system. For the small insurers who only own an insurance agency, the enterprise risk report should be very basic. OCI received no comments specifically addressing the potential financial impact of the rule on small business and OCI believes the compliance costs incurred would be similar to those incurred by other insurers. For these reasons, the impact of the rule should be minimal for small businesses.

With regard to the proposed preacquisition report, any insurer that met the market share threshold for having to file this report would not meet the definition of a small business. This portion of the rule change will have no effect on small business.

With regard to the surcharge for insurers subject to a supervisory college, no insurer subject to a supervisory college would meet the definition of a small business. This portion of the rule would have no effect on small business.

2. Summary of the data sources used to measure the Rule's impact on Small Businesses

Section 227.114, Wis. Stat., defines a "small business" as "a business entity, including its affiliates, which is independently owned and operated and not dominant in its field, and which employs 25 or fewer full-time employees or which has a gross annual sales of less than \$5,000,000."

3. Did the agency consider the following methods to reduce the impact of the Rule on Small Businesses?

- Less Stringent Compliance or Reporting Requirements
- Less Stringent Schedules or Deadlines for Compliance or Reporting
- Consolidation or Simplification of Reporting Requirements
- Establishment of performance standards in lieu of Design or Operational Standards
- Exemption of Small Businesses from some or all requirements
- Other, describe:

The proposed rule allows the commissioner to exempt an insurer from filing the enterprise risk report if they demonstrate undue financial or organizational hardship. This will allow the commissioner to exempt a small insurer from filing the report if the insurer shows it would cause undue hardship.

4. Describe the methods incorporated into the Rule that will reduce its impact on Small Businesses

OCI has incorporated the ability for the commissioner to exempt any small insurer from the enterprise risk report filing requirement if they establish undue hardship.

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5. Describe the Rule's Enforcement Provisions

The proposed rule adds no new enforcement provisions and will be enforced with OCI's general enforcement authority.

6. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)

Yes No
