

Introduced by

Industry, Business and Labor Committee

(At the request of the Insurance Commissioner)

1 A BILL for an Act to amend and reenact section 26.1-03.1-01, subsections 2 and 3 of section
2 26.1-03.1-02, section 26.1-03.1-03, subsection 2 of section 26.1-03.1-04, subdivision a of
3 subsection 2 of section 26.1-03.1-06, and sections 26.1-03.1-07, 26.1-03.1-08, and
4 26.1-03.1-13 of the North Dakota Century Code, relating to risk-based capital reports of
5 insurers.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1. AMENDMENT.** Section 26.1-03.1-01 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 **26.1-03.1-01. Definitions.**

10 As used in this chapter:

- 11 1. "Adjusted risk-based capital report" means a risk-based capital report that has been
12 adjusted by the commissioner in accordance with subsection 35 of section
13 26.1-03.1-02.
- 14 2. "Corrective order" means an order issued by the commissioner specifying corrective
15 actions that the commissioner has determined are required.
- 16 3. "Domestic insurer" means any ~~insurance company~~insurer domiciled in this state,
17 except a county mutual insurance company.
- 18 4. "Foreign insurer" means any ~~insurance company~~insurer that is licensed to do business
19 in this state under chapter 26.1-11 but is not domiciled in this state.
- 20 5. "Fraternal benefit society" means any insurer licensed under chapter 26.1-15.1.
- 21 6. "Life or health insurer" means any licensed life or health ~~insurance company~~insurer or
22 a licensed property and casualty insurer writing only accident and health insurance.

- 1 ~~6-7.~~ "Negative trend" means, with respect to a life or health insurer or a fraternal benefit
2 society, negative trend over a period of time, as determined in accordance with the
3 trend test calculation included in the life or fraternal risk-based capital instructions.
- 4 ~~7-8.~~ "Property and casualty insurer" means any insurer licensed under chapter 26.1-05 or
5 26.1-11 but does not include monoline mortgage guaranty insurers, financial guaranty
6 insurers, and title insurers.
- 7 ~~9.~~ "Risk-based capital instructions" means the risk-based capital report, including
8 risk-based capital instructions adopted by the national association of insurance
9 commissioners, as such risk-based capital instructions may be amended by the
10 national association of insurance commissioners from time to time in accordance with
11 the procedures adopted by the national association of insurance commissioners.
- 12 ~~8-10.~~ "Risk-based capital level" means an insurer's company action level risk-based capital,
13 regulatory action level risk-based capital, authorized control level risk-based capital, or
14 mandatory control level risk-based capital ~~and~~where:
- 15 a. "Authorized control level risk-based capital" means the number determined under
16 the risk-based capital formula in accordance with the risk-based capital
17 instructions.
- 18 b. "Company action level risk-based capital" means, with respect to any insurer, the
19 product of two and its authorized control level risk-based capital.
- 20 c. "Mandatory control level risk-based capital" means the product of seventy
21 hundredths and the authorized control level risk-based capital.
- 22 d. "Regulatory action level risk-based capital" means the product of one and
23 one-half and its authorized control level risk-based capital.
- 24 ~~9-11.~~ "Risk-based capital plan" means a comprehensive financial plan containing the
25 elements specified in subsection 2 of section 26.1-03.1-03. If the commissioner rejects
26 the risk-based capital plan, and it is revised by the insurer, with or without the
27 commissioner's recommendation, the plan must be called the "revised risk-based
28 capital plan".
- 29 ~~10-12.~~ "Risk-based capital report" means the report required in section 26.1-03.1-02.
- 30 ~~11-13.~~ "Total adjusted capital" means the sum of:

- 1 a. An insurer's statutory capital and surplus as determined in accordance with
2 statutory accounting applicable to the annual financial statements required to be
3 filed under section 26.1-03-07; and
4 b. Such other items, if any, as the risk-based capital instructions may provide.

5 **SECTION 2. AMENDMENT.** Subsections 2 and 3 of section 26.1-03.1-02 of the North
6 Dakota Century Code are amended and reenacted as follows:

- 7 2. A life and health insurer's or fraternal benefit society's risk-based capital must be
8 determined in accordance with the formula set forth in the risk-based capital
9 instructions. The formula must take into account, and may adjust for the covariance
10 between, the following factors determined in each case by applying the factors in the
11 manner set forth in the risk-based capital instructions:

- 12 a. The risk with respect to the insurer's assets;
13 b. The risk of adverse insurance experience with respect to the insurer's liabilities
14 and obligations;
15 c. The interest rate risk with respect to the insurer's business; and
16 d. All other business risks and any other relevant risks as are set forth in the
17 risk-based capital instructions;

18 ~~determined in each case by applying the factors in the manner set forth in the~~
19 ~~risk-based capital instructions.~~

- 20 3. A property and casualty insurer's risk-based capital must be determined in accordance
21 with the formula set forth in the risk-based capital instructions. The formula must take
22 into account, and may adjust for the covariance between, the following factors
23 determined in each case by applying the factors in the manner set forth in the risk-
24 based capital instructions:

- 25 a. Asset risk;
26 b. Credit risk;
27 c. Underwriting risk; and
28 d. All other business risks and any other relevant risks as are set forth in the
29 risk-based instructions;

30 ~~determined in each case by applying the factors in the manner set forth in the~~
31 ~~risk-based capital instructions.~~

1 **SECTION 3. AMENDMENT.** Section 26.1-03.1-03 of the North Dakota Century Code is
2 amended and reenacted as follows:

3 **26.1-03.1-03. Company action level event.**

4 1. "Company action level event" means any of the following events:

5 a. The filing of a risk-based capital report by an insurer which indicates that:

6 (1) The insurer's total adjusted capital is greater than or equal to its regulatory
7 action level risk-based capital but less than its company action level
8 risk-based capital;

9 (2) If a life or health insurer or a fraternal benefit society, the insurer has total
10 adjusted capital that is greater than or equal to its company action level
11 risk-based capital but less than the product of its authorized control level
12 risk-based capital and ~~two and one-half~~three and has a negative trend; or

13 (3) If a property and casualty insurer, the insurer has total adjusted capital
14 which is greater than or equal to its company action level risk-based capital
15 but less than the product of its authorized control level risk-based capital
16 and three and triggers the trend test determined in accordance with the
17 trend test calculation included in the property and casualty risk-based
18 capital instructions;

19 b. The notification by the commissioner to the insurer of an adjusted risk-based
20 capital report that indicates an event in subdivision a, provided the insurer does
21 not challenge the adjusted risk-based capital report under section 26.1-03.1-07;
22 or

23 c. If, under section 26.1-03.1-07, an insurer challenges an adjusted risk-based
24 capital report that indicates the event in subdivision a, the notification by the
25 commissioner to the insurer that the commissioner, after a hearing, has rejected
26 the insurer's challenge.

27 2. In the event of a company action level event, the insurer shall prepare and submit to
28 the commissioner a risk-based capital plan that must:

29 a. Identify the conditions that contribute to the company action level event;

30 b. Contain proposals of corrective actions that the insurer intends to take and would
31 be expected to result in the elimination of the company action level event;

- 1 c. Provide projections of the insurer's financial results in the current year and at
2 least the four succeeding years, both in the absence of proposed corrective
3 actions and giving effect to the proposed corrective actions, including projections
4 of statutory operating income, net income, capital, ~~or~~ and surplus. The projections
5 for both new and renewal business may include separate projections for each
6 major line of business and separately identify each significant income, expense,
7 and benefit component;
- 8 d. Identify the key assumptions impacting the insurer's projections and the
9 sensitivity of the projections to the assumptions; and
- 10 e. Identify the quality of, and problems associated with, the insurer's business,
11 including its assets, anticipated business growth and associated surplus strain,
12 extraordinary exposure to risk, mix of business, and use of reinsurance, if any, in
13 each case.
- 14 3. The risk-based capital plan must be submitted:
- 15 a. Within forty-five days of the company action level event; or
- 16 b. If the insurer challenges an adjusted risk-based capital report under section
17 26.1-03.1-07, within forty-five days after notification to the insurer that, after a
18 hearing, the commissioner has rejected the insurer's challenge.
- 19 4. Within sixty days after the submission by an insurer of a risk-based capital plan to the
20 commissioner, the commissioner shall notify the insurer whether the risk-based capital
21 plan may be implemented or is, in the judgment of the commissioner, unsatisfactory. If
22 the commissioner determines the risk-based capital plan is unsatisfactory, the
23 notification to the insurer must set forth the reasons for the determination, and may set
24 forth proposed revisions that will render the risk-based capital plan satisfactory, in the
25 judgment of the commissioner. Upon notification from the commissioner, the insurer
26 shall prepare a revised risk-based capital plan, which may incorporate by reference
27 any revisions proposed by the commissioner, and shall submit the revised risk-based
28 capital plan to the commissioner:
- 29 a. Within forty-five days after the notification from the commissioner; or

- 1 b. If the insurer challenges the notification from the commissioner under section
2 26.1-03.1-07, within forty-five days after a notification to the insurer that, after a
3 hearing, the commissioner has rejected the insurer's challenge.
- 4 5. In the event of a notification by the commissioner to an insurer that the insurer's
5 risk-based capital plan or revised risk-based capital plan is unsatisfactory, ~~subject to~~
6 ~~the insurer's right to a hearing under section 26.1-03.1-07,~~ the commissioner may,
7 subject to the insurer's right to a hearing under section 26.1-03.1-07, specify in the
8 notification that the notification constitutes a regulatory action level event.
- 9 6. Every domestic insurer that files a risk-based capital plan or revised risk-based capital
10 plan with the commissioner shall file a copy of the risk-based capital plan or revised
11 risk-based capital plan with the insurance commissioner in any state in which the
12 insurer is authorized to do business if:
- 13 a. The state has a risk-based capital provision substantially similar to subsection 1
14 of section 26.1-03.1-08; and
- 15 b. The insurance commissioner of that state has notified the insurer of its request
16 for the filing in writing, in which case the insurer shall file a copy of the risk-based
17 capital plan or revised risk-based capital plan in that state no later than the later
18 of:
- 19 (1) Fifteen days after the receipt of notice to file a copy of its risk-based capital
20 plan or revised risk-based capital plan with the state; or
- 21 (2) The date on which the risk-based capital plan or revised risk-based capital
22 plan is filed under subsections 3 and 4.

23 **SECTION 4. AMENDMENT.** Subsection 2 of section 26.1-03.1-04 of the North Dakota
24 Century Code is amended and reenacted as follows:

- 25 2. In the event of a regulatory action level event the commissioner shall:
- 26 a. Require the insurer to prepare and submit a risk-based capital plan or, if
27 applicable, a revised risk-based capital plan;
- 28 b. Perform such examination or analysis as the commissioner deems necessary of
29 the assets, liabilities, and operations of the insurer, including a review of its
30 risk-based capital plan or revised risk-based capital plan, ~~as the commissioner~~
31 ~~deems necessary;~~ and

- 1 c. Subsequent to the examination or analysis, issue an order specifying the
2 corrective actions as the commissioner determines are required in a corrective
3 order.

4 **SECTION 5. AMENDMENT.** Subdivision a of subsection 2 of section 26.1-03.1-06 of the
5 North Dakota Century Code is amended and reenacted as follows:

- 6 a. With respect to a life insurer or fraternal benefit society, the commissioner shall
7 take actions as are necessary to place the insurer under regulatory control under
8 chapter 26.1-06.1. In that event, the mandatory control level event must be
9 deemed sufficient grounds for the commissioner to take action under chapter
10 26.1-06.1, and the commissioner has the rights, powers, and duties in chapter
11 26.1-06.1 with respect to the insurer. If the commissioner takes action pursuant to
12 an adjusted risk-based capital report, the insurer is entitled to the protection of
13 chapter 26.1-06.1 pertaining to summary proceedings. Notwithstanding any of
14 the foregoing, the commissioner may forego action for up to ninety days after the
15 mandatory control level event if the commissioner finds there is a reasonable
16 expectation that the mandatory control level event may be eliminated within the
17 ninety-day period.

18 **SECTION 6. AMENDMENT.** Section 26.1-03.1-07 of the North Dakota Century Code is
19 amended and reenacted as follows:

20 **26.1-03.1-07. Hearings.**

21 Upon: any of the following, the insurer has the right to a confidential departmental hearing,
22 on a record, at which the insurer may challenge any determination or action by the
23 commissioner. The insurer shall notify the commission of the request for a hearing within five
24 days after the notification by the commissioner under subsection 1, 2, 3, or 4. Upon receipt of
25 the insurer's request for a hearing, the commissioner shall set a date for the hearing, which date
26 may be no less than ten nor more than thirty days after the date of the insurer's request.

- 27 1. Notification to an insurer by the commissioner of an adjusted risk-based capital report;
28 2. Notification to an insurer by the commissioner that:
29 a. The insurer's risk-based capital plan or revised risk-based capital plan is
30 unsatisfactory; and

- 1 b. Such notification constitutes a regulatory action level event with respect to the
2 insurer;
- 3 3. Notification to any insurer by the commissioner that the insurer has failed to adhere to
4 its risk-based capital plan or revised risk-based capital plan and that the failure has a
5 substantial adverse effect on the ability of the insurer to eliminate the company action
6 level event with respect to the insurer in accordance with its risk-based capital plan or
7 revised risk-based capital plan; or
- 8 4. Notification to an insurer by the commissioner of a corrective order with respect to the
9 insurer;

10 ~~the insurer is entitled to a confidential departmental hearing, on a record, at which the insurer~~
11 ~~may challenge any determination or action by the commissioner. The insurer shall notify the~~
12 ~~commissioner of its request for a hearing within five days after the notification by the~~
13 ~~commissioner under subsection 1, 2, 3, or 4. Upon receipt of the insurer's request for a hearing,~~
14 ~~the commissioner must set a date for the hearing, which date must be no less than ten nor~~
15 ~~more than thirty days after the date of the insurer's request.~~

16 **SECTION 7. AMENDMENT.** Section 26.1-03.1-08 of the North Dakota Century Code is
17 amended and reenacted as follows:

18 **26.1-03.1-08. Confidentiality - Prohibition on announcements - Prohibition on use in**
19 **ratemaking.**

- 20 1. All risk-based capital reports, to the extent the information therein is not required to be
21 set forth in a publicly available annual statement schedule, and risk-based capital
22 plans, including the results or report of any examination or analysis of an insurer
23 performed under this chapter and any corrective order issued by the commissioner
24 pursuant to examination or analysis, with respect to any domestic insurer or foreign
25 insurer that are filed with the commissioner constitute information that might be
26 damaging to the insurer if made available to its competitors, and therefore must be
27 kept confidential by the commissioner. This information may not be made public or be
28 subject to subpoena, other than by the commissioner and then only for the purpose of
29 enforcement actions taken by the commissioner under this chapter or any other
30 provision of the insurance laws of this state in the possession or control of the
31 insurance department are confidential and privileged, not subject to section 44-04-18,

1 not subject to subpoena, and not subject to discovery and are not admissible in
2 evidence in any private civil action. However, the commissioner may use any
3 document, material, or other information in the furtherance of any regulatory or legal
4 action brought as a part of the commissioner's official duties.

5 2. Neither the commissioner nor any person that received any document, material, or
6 other information while acting under the authority of the commissioner may be
7 permitted or required to testify in any private civil action concerning any confidential
8 document, material, or information subject to subsection 1.

9 3. To assist in the performance of the commissioner's duties, the commissioner:

10 a. May share any document, material, or other information, including any
11 confidential and privileged document, material, or information subject to
12 subsection 1, with any other state, federal, or international regulatory agency; the
13 national association of insurance commissioners and its affiliates and
14 subsidiaries; and any state, federal, and international law enforcement authority,
15 provided the recipient agrees to maintain the confidentiality and privileged status
16 of the document, material, or other information.

17 b. May receive any document, material, or information, including any otherwise
18 confidential and privileged document, material, or information, from the national
19 association of insurance commissioners and its affiliates and subsidiaries and
20 from any regulatory and law enforcement official of any other foreign or domestic
21 jurisdiction, and shall maintain as confidential or privileged any document,
22 material, or information received with notice or the understanding that it is
23 confidential or privileged under the laws of the jurisdiction that is the source of the
24 document, material, or information.

25 c. May enter any agreement governing sharing and use of information consistent
26 with this subsection.

27 4. Waiver of any applicable privilege or claim of confidentiality in any document, material,
28 or information does not occur as a result of disclosure to the commissioner under this
29 section or as a result of sharing as authorized in subsection 3.

30 2-5. It is the judgment of the legislative assembly that the comparison of an insurer's total
31 adjusted capital to any of its risk-based capital levels is a regulatory tool that may

1 indicate the need for possible corrective action with respect to the insurer, and is not
2 intended as a means to rank insurers generally. Therefore, except as otherwise
3 required under this chapter, the making, publishing, disseminating, circulating, or
4 placing before the public, or causing, directly or indirectly, to be made, published,
5 disseminated, circulated, or placed before the public, in a newspaper, magazine, or
6 other publication, or in the form of a notice, circular, pamphlet, letter, or poster, or over
7 any radio or television station, or in any other way, an advertisement, announcement,
8 or statement containing an assertion, representation, or statement with regard to the
9 risk-based capital levels of any insurer, or of any component derived in the calculation,
10 by any insurer, insurance producer, broker, or other person engaged in any manner in
11 the insurance business would be misleading and is therefore prohibited. However, if
12 any materially false statement with respect to the comparison regarding an insurer's
13 total adjusted capital to its risk-based capital levels, or any of them, or an inappropriate
14 comparison of any other amount to the insurer's risk-based capital levels is published
15 in any written publication and the insurer is able to demonstrate to the commissioner
16 with substantial proof the falsity of the statement, or the inappropriateness, as the
17 case may be, then the insurer may publish an announcement in a written publication if
18 the sole purpose of the announcement is to rebut the materially false statement.

19 3-6. It is the further judgment of the legislative assembly that the risk-based capital
20 instructions, risk-based capital reports, adjusted risk-based capital reports, risk-based
21 capital plans, and revised risk-based capital plans are intended solely for use by the
22 commissioner in monitoring the solvency of insurers and the need for possible
23 corrective action with respect to insurers and may not be used by the commissioner
24 for ratemaking nor considered or introduced as evidence in any rate proceeding nor
25 used by the commissioner to calculate or derive any elements of an appropriate
26 premium level or rate of return for any line of insurance that an insurer or any affiliate
27 is authorized to write.

28 **SECTION 8. AMENDMENT.** Section 26.1-03.1-13 of the North Dakota Century Code is
29 amended and reenacted as follows:

1 **26.1-03.1-13. Phasein provision.**

2 1. For risk-based capital reports required to be filed by life insurers with respect to 1993,
3 the following requirements apply in lieu of the provisions of sections 26.1-03.1-03,
4 26.1-03.1-04, 26.1-03.1-05, and 26.1-03.1-06:

5 a. In the event of a company action level event with respect to a domestic insurer,
6 the commissioner may take no regulatory action hereunder.

7 b. In the event of a regulatory action level event under subdivision a, b, or c of
8 subsection 1 of section 26.1-03.1-04, the commissioner shall take the actions
9 required under section 26.1-03.1-03.

10 c. In the event of a regulatory action level event under subdivision d, e, f, g, h, or i of
11 subsection 1 of section 26.1-03.1-04 or an authorized control level event, the
12 commissioner shall take the actions required under section 26.1-03.1-04 with
13 respect to the insurer.

14 d. In the event of a mandatory control level event with respect to an insurer, the
15 commissioner shall take the actions required under section 26.1-03.1-05 with
16 respect to the insurer.

17 2. For risk-based capital reports required to be filed by property and casualty insurers
18 with respect to 1994, the following requirements apply in lieu of the provisions of
19 sections 26.1-03.1-03, 26.1-03.1-04, 26.1-03.1-05, and 26.1-03.1-06:

20 a. In the event of a company action level event with respect to a domestic insurer,
21 the commissioner shall take no regulatory action hereunder.

22 b. In the event of a regulatory action level event under subdivision a, b, or c of
23 subsection 1 of section 26.1-03.1-04, the commissioner shall take the actions
24 required under section 26.1-03.1-03.

25 c. In the event of a regulatory action level event under subdivision d, e, f, g, h, or i of
26 subsection 1 of section 26.1-03.1-04 or an authorized control level event, the
27 commissioner shall take the action required under section
28 ~~26.1-03.1-05~~26.1-03.1-04 with respect to the insurer.

29 d. In the event of a mandatory control level event with respect to an insurer, the
30 commissioner shall take the actions required under section 26.1-03.1-05 with
31 respect to the insurer.