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Written Testimony – Senate Insurance & Financial Institutions Committee  
Senate Bill 284 (Hottinger, Peterson)  
Meredith Alexander, Assistant Director of Government Affairs  
Ohio Department of Insurance  
May 27, 2020

Chairman Hackett, Ranking Member Craig, and members of the Senate Insurance and Financial Institutions Committee, my name is Meredith Alexander and I am the Assistant Director of Government Affairs for the Ohio Department of Insurance (the department). The purpose of my written comments is to provide the background and significance of Senate Bill 284, revisions to the NAIC Credit for Reinsurance Model Law. On behalf of the department, I would like to thank Senator Hottinger and Senator Peterson for working with us on this legislation.

The mission of the department is to provide consumer protection through fair but vigilant regulation while promoting a stable and competitive environment for insurers. The department is responsible for regulating more than 1,600 insurance companies licensed to do business in Ohio – including 257 domiciled here. As the seventh largest insurance market in the United States by premium volume and the eighteenth largest in the world, Ohio has \$95 billion in premiums written by insurers each year. The department also licenses and monitors the conduct of approximately 244,000 insurance agents and 19,000 insurance agencies doing business in Ohio.

State insurance regulators develop standards and best practices by collaborating through a regulatory support organization called the National Association of Insurance Commissioners (the NAIC). All 50 states, the District of Columbia, and the U.S. territories are members. Through the NAIC, state regulators have the ability to work together to craft strong and consistent regulatory standards that can be adopted uniformly nationwide. The legislation before you today is a result of a collaborative effort through the NAIC.

Collateral requirements for reinsurance has had a long history of debate, and in 2011, the NAIC developed a Credit for Reinsurance model as part of a larger effort to modernize reinsurance regulation in the U.S. Reinsurance is the ceding of an insurer's risk to other insurers in order to spread out risk. The idea is to protect any one insurer from having too much exposure to a particularly large event or disaster.

The revisions in 2011 allowed for non-U.S. reinsurers to post less than 100% collateral for U.S. claims, commensurate with the non-U.S. reinsurer's financial strength and the effectiveness of its home country regulator. In 2014, the Ohio General Assembly enacted this model law in the form of Senate Bill 140 and it stands as current Ohio law today.

In September 2017, the Treasury Department and the U.S. Trade Representative, utilizing their authorities under the Dodd-Frank Act, finalized a Covered Agreement with the European Union (EU), which eliminates collateral requirements for EU reinsurers provided certain regulatory criteria are met. In December 2018, a separate Covered Agreement was signed between the U.S.

and the United Kingdom (UK), which mirrors the language from the agreement with the EU. These covered agreements require similar solvency capital requirements among EU reinsurers, UK reinsurers, and U.S. reinsurers.

These changes level the playing field for the regulation of reinsurers while also ensuring departments of insurance in the United States can rely on the work of regulators in countries that are part of the covered agreements. The covered agreements benefit Ohio domestic insurers purchasing reinsurance because it supports a competitive market and competitive rates. The agreements also benefit Ohio domestic insurers that sell reinsurance in international markets because it provides a level playing field as they compete against non-US reinsurers.

The Dodd-Frank Act provides, among other things, that state insurance laws can be preempted if the Director of the Federal Insurance Office (FIO) determines a state's law is inconsistent with agreements with other international regulatory jurisdictions. In terms of this update to the credit for reinsurance model law, states are required to bring their laws in compliance by March 1, 2021 or face potential federal preemption by FIO.

For this reason, Senate Bill 284 mirrors these standards put into place by the Covered Agreements. Senate Bill 284 contains key provisions that will provide a level playing field for Ohio domestic insurers purchasing reinsurance and Ohio domestic insurers that sell reinsurance. These changes to current law will protect Ohio's regulatory authority over reinsurers operating in Ohio while also recognizing the work of strong regulators outside the U.S. On behalf of the department, I ask for your favorable consideration of Senate Bill 284 and for your assistance in meeting the federally imposed deadline.

Thank you for your consideration and I remain available to help answer any questions members should have.