

CONFIDENTIAL
LEGISLATIVE BILL REVIEW FORM: 2015

Bill Number: H. 73 Name of Bill: An act relating to the corporate governance structure of insurers

Agency/ Dept: Dept. of Financial Regulation Author of Bill Review: Commissioner Susan L. Donegan

Date of Bill Review: 4/23/3015 Related Bills and Key Players _____

Status of Bill: (check one): Upon Introduction As passed by 1st body As passed by both

Recommended Position:

Support Oppose Remain Neutral Support with modifications identified in #8 below

Analysis of Bill

1. Summary of bill and issue it addresses. *Describe what the bill is intended to accomplish and why.*

Corporate governance is a framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in an insurance company's relationship with its stakeholders. This bill has 3 main purposes: (1) The bill provides the Commissioner with a summary of an insurance company's corporate governance structure, policies, and practices so the Commissioner may gain and maintain an understanding of the company's corporate governance framework; (2) The bill outlines the requirements for completing a corporate governance annual disclosure with the Commissioner; and (3) The bill provides for the confidential treatment of the corporate governance annual disclosure.

Key items required to be described within the corporate governance annual disclosure include:

- The insurance company's corporate governance framework and structure, including duties and structure of the board of directors and committees;
- The policies and practices of the company's board of directors and significant committees, including appointment practices, the frequency of meetings held, and review procedures;
- The policies and practices directing senior management, including a description of defined suitability standards, the company's code of conduct and ethics, performance evaluation, and compensation practices, and succession planning; and
- The processes by which the board of directors, committees, and senior management ensure an appropriate level of oversight to the critical risk areas impacting the insurance company's business activities, including risk management processes, the actuarial function, and investment, reinsurance, and business strategy decision-making processes.

2. Is there a need for this bill? *Please explain why or why not.*

Yes. This bill will address concerns over the perceived lack of effective corporate governance practices and board and senior management oversight of critical risk areas as part of the "lessons learned" from the recent financial crisis. Additionally, this bill is expected to become a National Association of Insurance Commissioners (NAIC) accreditation standard within the next 2-3 years. NAIC accreditation assures

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regulators in other states that the State of Vermont has met or exceeded the recognized standards for insurance regulation. In turn, accreditation allows Vermont domiciled insurers, as well as the Department of Financial Regulation's regulators, to operate on a reciprocal basis with their colleagues in other states. Accreditation rests on the passage of certain NAIC approved, and industry vetted, statutory and regulatory provisions. These required provisions are typically based on NAIC models that have been carefully crafted and commented on by regulators from all fifty states and by industry. This bill is identical to the NAIC Model Law on Corporate Governance.

3. **What are likely to be the fiscal and programmatic implications of this bill for this Department?** None.
4. **What might be the fiscal and programmatic implications of this bill for other departments in state government, and what is likely to be their perspective on it?** None.
5. **What might be the fiscal and programmatic implications of this bill for others, and what is likely to be their perspective on it?** *(for example, public, municipalities, organizations, business, regulated entities, etc)*

This bill will require insurance companies to file annually a Corporate Governance Annual Disclosure (CGAD). Any fiscal and programmatic implications of the CGAD are expected to be minimal, and the insurance industry testified to that effect.

6. **Other Stakeholders:**

6.1 **Who else is likely to support the proposal and why?**

The following trade groups testified in favor of this bill: the Property and Casualty Insurers Association of America, the American Insurance Association, America's Health Insurance Plans, and the American Council of Life Insurers.

6.2 **Who else is likely to oppose the proposal and why?** None.

7. **Rationale for recommendation:** *Justify recommendation stated above.*

This bill improves oversight over corporate governance practices, maintains Vermont's status as a leader and innovator within the insurance industry, and advances Vermont's future NAIC accreditation.

8. **Specific modifications that would be needed to recommend support of this bill:** *Not meant to rewrite bill, but rather, an opportunity to identify simple modifications that would change recommended position.*

None.

9. **Gubernatorial appointments to board or commission?** None.

~~S. Gray~~/Commissioner has reviewed this document: Susan Z. Rougea Date: 4/23/15

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