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Date:	**February 1, 2024**
Bill # / Title:	**House Bill 252 - Insurance - Holding Companies - Group Capital Calculation and Liquidity Stress Test**
Committee:	**House Economic Matters Committee**
Position:	**Support with Amendments**

The Maryland Insurance Administration (MIA) appreciates the opportunity to share its support, with amendments, of House Bill 252, which is a Departmental bill.

House Bill 252 implements revisions made to the National Association of Insurance Commissioners' (NAIC) Insurance Holding Company System Regulatory Act (#440) and authorizes revisions to the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450). These models have, since the early 1970s, provided state insurance departments with a framework for insurance group supervision. They are also a part of the national, uniform system of prudential oversight of insurance companies to assure their solvency and financial soundness.

House Bill 252 amends the Insurance Article to include the revisions, adopted to the NAIC Model in December 2023, to provide the MIA with the Group Capital Calculation (GCC) for group solvency supervision and the Liquidity Stress Test (LST) for macroprudential surveillance. The revisions will become an accreditation standard for state insurance departments beginning January 1, 2026.

The GCC is intended to provide additional analytical information to the lead state[1] for use in assessing group risks and capital adequacy to complement the current holding company analysis in the U.S. The GCC provides an additional analytical tool for conducting group-wide supervision and assists regulators in holistically understanding the financial condition of non-insurance entities within the holding company system. It provides key financial information on the insurance group; quantifies risk across the insurance group; supports transparency into how capital is allocated; and aids in understanding whether and to what degree insurance companies are supporting the operations of non-insurance entities.

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[1] For U.S. insurance groups with insurance entities domiciled in more than one U.S. state/jurisdiction, a lead state is selected to oversee the group and is primarily responsible for the coordination and communication between the insurance group and the other states, as well as other potential responsibilities. The determination of a lead state is affected by several factors including the state with the insurer/affiliate with the largest direct written premium. In the case of an international-based insurance holding company system, the foreign-based regulator may be determined to be the group-wide supervisor.

The GCC is intended to satisfy the group capital assessment requirements of the Covered Agreements made between the U.S. and the European Union (EU) and the United Kingdom (UK). Without the GCC, any supervisor in the EU or UK could impose its own group capital calculation (e.g., Solvency II capital requirements) on a U.S. group operating in the EU or UK and all U.S. insurers within that group. Further, while state insurance regulators currently have the authority to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist insurance regulators at the MIA with identifying risks that may emanate from a holding company system. The GCC, and related financial reporting, will provide comprehensive transparency to state insurance regulators, making risks more easily identifiable and quantifiable.

The NAIC developed the LST to provide state insurance regulators with insights into a key macroprudential risk monitored by the Financial Stability Oversight Council (FSOC) and other jurisdictions internationally while also enhancing group supervision. The LST requires insurers to file the results of a specific year's liquidity stress test to the lead state insurance commissioner. The LST is a tool intended to help assess the impacts on the broader financial market of aggregate asset sales by large life insurers under a liquidity stress event.

The LST focuses on large life insurers due to the long-term cash buildup involved in many life insurance contracts and the potential for large-scale liquidation of assets. Thus, the primary goal of the LST is to provide quantitative and qualitative insights for macroprudential surveillance, such as identifying the amount of asset sales that could occur during a specific stress scenario; but it will also aid micro prudential regulation as well. Because this stress testing is complex and resource-intensive, a set of scope criteria was developed to identify life insurers with large balances of activities assumed to be highly correlated with liquidity risk; thus many life insurers will not be subject to LST.

It should also be noted that the MIA is working with the Chair and the Committee to provide technical amendments to better align HB 252 with the NAIC's Model with regard to the confidentiality of information or materials obtained under these tests.

With those technical amendments, House Bill 252 will ensure that the MIA has an effective framework to supervise insurance companies operating in the State. For these reasons, the MIA urges a favorable committee report on House Bill 252 and thanks the Committee for the opportunity to share its support.