

MINUTES
HOUSE BUSINESS COMMITTEE

DATE: Thursday, February 27, 2014

TIME: 1:30 pm or Upon Adjournment

PLACE: Room EW41

MEMBERS: Chairman Henderson, Vice Chairman Thompson, Representative(s) Collins, Crane, Palmer, Barbieri, Batt, Agidius, Clow, Hixon, Kauffman, Monks, Morse, Stevenson, Youngblood, Smith, Rusche, Gannon

**ABSENT/
EXCUSED:** Reps. Rusche, Crane

GUESTS: Woody Richards, Idaho Insurance Guaranty Association; Angela Richards, Idaho Insurance Guaranty Association

Chairman Henderson called the meeting to order at 1:30 p.m.

Chairman Henderson introduced **Rep. Paul Agidius**, substituting for **Rep. Cindy Agidius**, and welcomed him to the Committee.

S 1269: **Mr. Woody Richards**, Idaho Insurance Guaranty Association, presented **S 1269** relating to claims handling services to run-off insurers. He said the Guaranty Association's primary function is to investigate and pay claims in Idaho within certain statutory limits when a property or casualty insurance company becomes bankrupt. He said the money to pay for these claims comes from assessments of the Guaranty Association members and from assets of the bankrupt insurance company. He said payment of these claims is supervised by the Department of Insurance (DOI) and by the Court. He explained determinations of bankruptcy of an insurer are made by the Department of Insurance and a state district court. He said an alternative to bankruptcy can occur should the DOI decide to attempt rehabilitation or supervision of the business of the insurance company. He said, the DOI may decide a form of run-off is appropriate. He said this legislation would give the DOI the option to authorize use of the Guaranty Association to help when there is a run-off situation. He noted the DOI has no objection to the legislation, and other insurers and the general public were informed with no known opposition.

Mr. Richards defined run-off as a process whereby a company may be told it cannot write any new insurance business, but that it should continue to pay claims as they arise. He gave as an example an insurance company experiencing severe financial difficulties which cause the work force to leave. He said the DOI will authorize this "run-off" company to enter a contract with the Guaranty Association to continue to adjust and pay claims.

Mr. Richards said if the Guaranty Association is used, then its expenses would be reimbursed from insurance company funds. He said no funds of the Guaranty Association would be used by the Guaranty Association when acting as a third party administrator in a run-off. He added, the Guaranty Association and its employees and agents would be immune from liability.

In response to questions from the Committee, **Mr. Richards** said the DOI makes the determination that a particular company may write no new business and recognizes the need to service existing policies and pay claims as they arise. He said no particular incident precipitated the need for bill, rather this complies with provisions of the model act. He said the benefit of using the Guaranty Association is that its employees have the expertise to deal with liquidation of companies. He said money used to pay claims in run-off situations are the insurance company's money. He said neither new risk based capital requirements for insurance companies nor adoption of this model act are expected to produce an increase in run-off companies. He said insurance company liquidations tend to trend along with the economic cycle and are subject to the influences of high or low interest rates like other businesses. He said this legislation will not increase the number of insolvent companies. He said there is a process whereby an insurance company can come back into compliance.

Mr. Richards said the Director of the Department of Insurance will be alerted to signs that a company is in trouble and he will then work with the officers of the insurance company to craft a response. He said the preference is to give the insurance company the opportunity to rehabilitate. He said liquidation of an insurance company is a decision of District Court. He affirmed that run-off situations apply only to property and casualty companies. He said workman's compensation claims can be of lengthy duration and can be paid indefinitely. He said similar processes occur to life, disability and health insurance companies who have a separate association which administers that program. He said the language of this legislation is identical to wording already in statute and mirrored provisions of the model act.

MOTION: **Rep. Gannon** made a motion to send **S 1269** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote. Rep. Gannon** will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, the meeting was adjourned at 1:50 p.m.

Representative Henderson
Chair

Catherine Costner
Secretary