

PLEASE SUPPORT HB-1013

Concerning Division of a Domestic Stock Insurer into One or More Resulting Domestic Stock Insurers

**Representative Marc Snyder and Representative Kevin Van Winkle
Senator Chris Kolker**

House Bill 21-1013 reforms and modernizes the method by which a Colorado domestic stock insurer allocates assets and liabilities by allowing for the division of one company into two or more resulting insurance companies via a corporate-level transaction that is the reverse of a merger.

The changes proposed clarify and simplify the consumer experience, while providing robust oversight through the Colorado Division of Insurance. The changes proposed are based on similar legislation passed in other states, such as Connecticut, Michigan, Iowa, and Georgia.

The Problem

From a practical standpoint, under current law, a Colorado domestic stock insurer seeking to sell or transfer a portion of its book of business is effectively required to engage in a protracted and unduly complicated reinsurance transaction, known as coinsurance, which is burdensome for insurance companies and confusing to consumers.

When a book of insurance policies are transferred under these coinsurance transactions, they technically remain with the original insurer and are reinsured by the reinsurer. This requires the selling insurer and reinsurer to remain in a long-term contractual relationship, potentially for decades.

Coinsurance is confusing to policyholders because, rather than affecting a clean transfer, policies remain on the paper of the selling insurer but are typically administered by the reinsurer. The original insurer cannot fully remove the acquired book of business from its portfolio until all policies have been paid, lapsed, or individually repapered through the acquiring insurer. Such a process can take decades.

The HB 1013 Solution

HB-1013 could be used by Colorado domestic stock insurers to simplify the divestiture of their books of business, resulting in benefits for both consumers and insurers. In this context, under the changes proposed, the original insurer would allocate the business being sold to a newly-created, resulting insurer, which could then merge with or be acquired by another company. This allows for the transacting companies to neatly and completely finalize their transaction without complicated, lingering contractual commitments; it also eliminates any ambiguity to consumers about who holds the underlying policies.

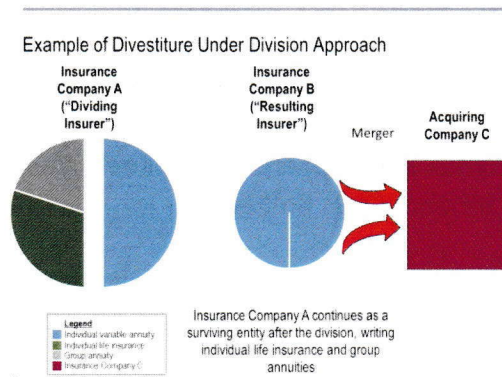
The proposed framework also requires mandatory review by the Division of Insurance to ensure consumers' interests are protected. The Division of Insurance has authority under current law to review and approve the change of control or merger of Colorado insurance companies, so the grant of authority under HB-1013 is consistent with the Division of Insurance's current oversight role.

Questions?

Mike Feeley – (303) 475-2925

Jia Meeks – (303) 532-6492

On behalf of Empower Retirement



The Process of Division and Review Outlined in HB-1013

- The insurer seeking to divide its business would prepare a "Plan of Division" that describes the manner of allocating described assets and liabilities among resulting insurers, the manner of distributing shares, and other terms and conditions.
- The Plan of Division must be approved according to the Dividing Insurer's articles of incorporation and by-laws.
- The Plan of Division is filed with the Colorado Division of Insurance, which then conducts a public hearing, and the Dividing Insurer must notify state insurance regulators and impacted guaranty associations. The Dividing Insurer must also make reasonable efforts to contact contract/policyholders, reinsurers and others with in the interest in the division at least thirty in advance of the public hearing.
- Approval by the Colorado Division of Insurance is subject to various criteria designed to protect consumers. The Dividing Insurer is responsible for expenses associated with this review.
- If approved by the Colorado Division of Insurance, an officer or representative of the Dividing Insurer executes a certificate of division, which is filed with the Secretary of State, at which point the Resulting Insurer(s) come into existence.

Benefits to Business and Consumers

HB--1013 provides Colorado domestic stock insurers a mechanism for cleanly and completely transferring books of business to other companies, while providing fulsome oversight by the Colorado Division of Insurance. A clean divestiture is highly impractical under current law; and allowing for divisions will facilitate how insurance companies conduct business in Colorado.

Additionally, the proposed method of review provides strong consumer-protective oversight by integrating review by the Colorado Division of Insurance.

HB-1013, when used in the context of divestitures of blocks of business, will provide greater clarity to consumers by removing the confusion surrounding which company owns underlying policies and which company administers and otherwise "pays out" on policies and accounts.

PLEASE SUPPORT HB-1310

Questions?

Mike Feeley – (303) 223-1237

Jia Meeks – (303) 532-6492

On behalf of Empower Retirement