



**Substitute Senate Bill No. 411**

**Public Act No. 12-103**

**AN ACT CONCERNING THE INSURANCE HOLDING COMPANY SYSTEM REGULATORY ACT.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 38a-129 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) It shall be the purpose of sections 38a-129 to 38a-140, inclusive, as amended by this act, to safeguard the financial security of Connecticut domestic insurance companies by empowering the Insurance Commissioner to supervise the activities of insurance companies doing business within this state which are affiliated with an insurance holding company system, to review the acquisition of control over the management of domestic insurance companies, however effectuated, and to provide standards for such supervision and review.

(b) As used in sections 38a-129 to 38a-140, inclusive, as amended by this act, the following terms shall have the respective meanings hereinafter set forth, unless the context shall otherwise require:

(1) "Affiliate" [and] or "affiliated" [have] has the same meaning [assigned to them by] as provided in section 38a-1;

**Substitute Senate Bill No. 411**

(2) "Commissioner" means the Insurance Commissioner and any assistant to the Insurance Commissioner designated and authorized by [him] the commissioner while acting under such designation;

(3) "Control", "controlled by" [and] or "under common control with" [have] has the same meaning [assigned to them by] as provided in section 38a-1. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten per cent or more of the voting securities of any other person. This presumption may be rebutted by a showing that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, [determine] that control exists in fact, notwithstanding the absence of a presumption to that effect;

(4) "Enterprise risk" means any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or liquidity of the insurer or the insurer's insurance holding company system as a whole, including, but not limited to, any activity, circumstance, event or series of events that would cause an insurer's risk-based capital to fall below minimum threshold levels, as described in subsection (d) of section 38a-72 or, for a health care center, in subdivision (2) of subsection (a) of section 38a-193, or would cause the insurer to be in a hazardous financial condition;

[(4)] (5) "Insurance holding company system" means two or more affiliated persons, one or more of which is an insurance company;

[(5)] (6) "Insurance company" [shall have] or "insurer" has the same meaning as [set forth] provided in section 38a-1, except that it [shall] does not include agencies, authorities or instrumentalities of the

**Substitute Senate Bill No. 411**

United States, its possessions and territories, the Commonwealth of Puerto Rico, the District of Columbia, or a state or political subdivision of a state;

(7) "NAIC" means the National Association of Insurance Commissioners;

~~[(6)]~~ (8) "Person" [means a person as defined] has the same meaning as provided in section 38a-1, or any combination of persons so defined acting in concert;

~~[(7)]~~ (9) A "securityholder" of a specified person means one who owns any security of such person, including common stock, preferred stock, debt obligations and any other security convertible into or evidencing the right to acquire any of the foregoing;

~~[(8)]~~ (10) "Subsidiary" [is defined] has the same meaning as provided in section 38a-1;

~~[(9)]~~ (11) "Voting security" [is defined to include] includes any security convertible into or evidencing a right to acquire a voting security.

Sec. 2. Section 38a-130 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) (1) No person other than the issuer shall make a tender offer for [.] or a request or invitation for tenders of, enter into any agreement to exchange securities for, seek to acquire [.] or acquire, in the open market or otherwise, any voting security, or solicit any proxy for the purpose of acquiring control, of a domestic insurance company or, subject to the provisions of subsection (c) of this section, any corporation controlling a domestic insurance company if, after the consummation thereof, such person would, directly or indirectly, or by conversion or by exercise of any right to acquire, be in control of such

**Substitute Senate Bill No. 411**

domestic insurance company or corporation controlling a domestic insurance company. [, and no] As used in this section, (A) "domestic insurance company" includes any person controlling a domestic insurance company unless such person is directly or through affiliates primarily engaged in business other than the business of insurance, as determined by the commissioner, and (B) "person" does not include a securities broker holding, in the usual and customary broker's function, less than twenty per cent of the voting securities of an insurance company or of any entity that controls an insurance company.

(2) (A) (i) No person shall enter into an agreement to merge with or otherwise acquire control of a domestic insurance company or any corporation controlling a domestic insurance company unless, at the time any form of initial offer, request or invitation is made or the agreement is entered into, or prior to the acquisition of such securities or proxies if no offer or agreement is involved, such person has filed with the commissioner and has sent to such insurance company a statement containing the information required by subsection (b) of this section and such offer, request, invitation, agreement or acquisition has been approved by the commissioner in the manner hereinafter prescribed.

(ii) If any offer, request, invitation, agreement or acquisition is proposed to be made by means of a registration statement under the Securities Act of 1933 or in circumstances requiring the disclosure of similar information under the Securities Exchange Act of 1934, the person required to file the statement under subparagraph (A)(i) of this subdivision may utilize the registration statement or such documents furnishing the similar information to provide the information required by subsection (b) of this section, to the extent that the registration statement or such documents contains such information.

(B) If the acquisition will result in a change of control of an

***Substitute Senate Bill No. 411***

insurance company authorized to do business in this state, the person seeking to acquire control of such insurance company shall file the preacquisition notification set forth in subsection (c) of section 38a-131, as amended by this act, with the commissioner and comply with the provisions of subsection (c) of section 38a-131, as amended by this act.

(3) Any controlling person of a domestic insurance company seeking to divest in any manner such person's controlling interest in such insurance company shall file with the commissioner and send to such insurance company a confidential notice of the proposed divestiture at least thirty days' prior to such divestiture, except that if a statement set forth in subparagraph (A) of subdivision (2) of this subsection has been filed with the commissioner with respect to such transaction, such controlling person shall not be required to file or send such confidential notice. The notice shall remain confidential until the conclusion of the divestiture unless the commissioner determines that such confidential treatment will interfere with the enforcement of this section. The commissioner shall adopt regulations, in accordance with the provisions of chapter 54, to establish the circumstances under which a controlling person shall be required to obtain the commissioner's prior approval of such divestiture.

(b) [Such] (1) The statement required under subparagraph (A) of subdivision (2) of subsection (a) of this section shall be made under oath or affirmation and shall contain the following information:

[(1)] (A) The name and address of each person by whom or on whose behalf the merger or other acquisition of control referred to in subsection (a) of this section is to be effected, hereinafter called "acquiring party", and (i) if such person is an individual, [his] such individual's principal occupation and all offices and positions held during the past five years, and any conviction of crimes other than minor traffic violations during the past ten years, [;] or (ii) if such person is not an individual, (I) a report of the nature of its business

**Substitute Senate Bill No. 411**

operations during the past five years or for such lesser period as such person and any predecessors thereof shall have been in existence, [;] (II) an informative description of the business intended to be done by such person and such person's subsidiaries, [;] and (III) a list of all individuals who are or who have been selected to become directors or executive officers of such person [,] or who perform functions appropriate to such positions. Such list shall include for each such individual the information required by subparagraph (A)(i) of this subdivision;

[(2)] (B) The source, nature and amount of the consideration used or to be used in effecting the merger or other acquisition of control, a description of any transaction wherein funds were or are to be obtained for any such purpose including any pledge of the insurance company's stock [,] or the stock of any of its subsidiaries or controlling affiliates [,] and the identity of persons furnishing such consideration, provided, where a source of such consideration is a loan made in the lender's ordinary course of business, the identity of the lender shall remain confidential if the person filing such statement so requests;

[(3)] (C) Fully audited financial information as to the earnings and financial condition of each acquiring party or for the preceding five fiscal years of each such acquiring party for such lesser period as such acquiring party and any predecessors thereof shall have been in existence, and similar unaudited information as of a date not earlier than ninety days prior to the filing of the statement;

[(4)] (D) Any plans or proposals [which] that each acquiring party may have to liquidate such insurance company, to sell [its] such insurance company's assets or merge or consolidate it with any person, or to make any other material change in [its] such insurance company's business or corporate structure or management;

[(5)] (E) The number of shares of any security referred to in

**Substitute Senate Bill No. 411**

subsection (a) of this section [which] that each acquiring party proposes to acquire, [and] the terms of the offer, request, invitation, agreement or acquisition referred to in said subsection (a), and a statement as to the method by which the fairness of the proposal was arrived at;

[(6)] (F) The amount of each class of any security referred to in subsection (a) of this section [which] that is beneficially owned or concerning which there is a right to acquire beneficial ownership by each acquiring party;

[(7)] (G) A full description of any contracts, arrangements or understandings with respect to any security referred to in subsection (a) of this section in which any acquiring party is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits [ ] or the giving or withholding of proxies. Such description shall identify the persons with whom such contracts, arrangements or understandings have been entered into;

[(8)] (H) A description of the purchase of any security referred to in subsection (a) of this section during the twelve calendar months preceding the filing of the statement, by any acquiring party, including the dates of purchase, names of the purchasers and consideration paid or agreed to be paid;

[(9)] (I) A description of any recommendations to purchase any security referred to in subsection (a) of this section made during the twelve calendar months preceding the filing of the statement, by any acquiring party, or by anyone based upon interview or at the suggestion of such acquiring party;

[(10)] (J) Copies of all tender offers for, requests, [or] invitations for

**Substitute Senate Bill No. 411**

tenders of, exchange offers for [.] and agreements to acquire or exchange any securities referred to in subsection (a) of this section and of additional soliciting material relating thereto;

[(11)] (K) The term of any agreement, contract or understanding made with or proposed to be made with any broker-dealer as to solicitation of securities referred to in subsection (a) of this section for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto;

(L) An acknowledgment by the person filing such statement that such person shall make a good faith effort to ensure that the annual enterprise risk report required under subsection (f) of section 38a-135, as amended by this act, is filed in a timely manner for as long as such person's control exists;

(M) An acknowledgment by the person filing such statement that such person and all subsidiaries in the insurance holding company system within such person's control will provide such information the commissioner may request to evaluate enterprise risk to the insurance company; and

[(12)] (N) Such additional information as the commissioner may prescribe as necessary or appropriate for the protection of policyholders of the insurance company or in the public interest.

(2) If the person required to file the statement [referred to in subsection (a)] under subparagraph (A) of subdivision (2) of subsection (a) of this section is a partnership, limited partnership, syndicate or other group, the commissioner may require that the information called for by [subdivisions (1) to (12)] subparagraphs (A) to (N), inclusive, of subdivision (1) of this subsection shall be given with respect to each partner of such partnership or limited partnership, each member of such syndicate or group [.] and each person who

**Substitute Senate Bill No. 411**

controls such partner or member. If any such partner, member or person [is a corporation,] or the person required to file [the] such statement [referred to in subsection (a) of this section] is a corporation, the commissioner may require that the information called for by [subdivisions (1) to (12)] subparagraphs (A) to (N), inclusive, of subdivision (1) of this subsection shall be given with respect to such corporation, each officer and director of such corporation [,] and each person who is directly or indirectly the beneficial owner of more than ten per cent of the outstanding voting securities of such corporation. If any material change occurs in the facts set forth in the statement filed with the commissioner and sent to such [insurer] insurance company pursuant to this section, an amendment setting forth such change, together with copies of all documents and other material relevant to such change, shall be filed with the commissioner and sent to such insurance company [within] not later than two business days after the person learns of such change.

(c) Any person seeking to acquire control of any corporation [which] that is not itself a domestic insurance company but [which] that controls a domestic insurance company shall remain fully subject to all the provisions of sections 38a-129 to 38a-140, inclusive, as amended by this act, except if such control is sought to be acquired by means of a tender offer, exchange offer or solicitation of proxies, the required approval of the commissioner need not be obtained prior to commencement of such tender offer, exchange offer or solicitation of proxies. Such person shall [, however,] be required to furnish the commissioner with a statement under oath or affirmation containing the information required in subsection (b) of this section no later than the date on which the tender offer, exchange offer or solicitation of proxies commences.

(d) The following shall constitute violations of subsections (a) to (c), inclusive, of this section: (1) The failure to file any statement,

**Substitute Senate Bill No. 411**

amendment or other material required to be filed pursuant to subsection (a) or (b) of this section; [or] (2) the effectuation of [ ] or any attempt to effectuate [ ] an acquisition of control of, divestiture of or merger with [ ] a domestic insurance company, other than a domestic insurance company referred to in subsection (c) of this section, unless the commissioner has given [his prior] the commissioner's approval thereto after [the] a hearing [required under] held pursuant to section 38a-132, as amended by this act; or (3) the effectuation of an acquisition of control of [ ] or merger with [ ] a domestic insurance company referred to in subsection (c) of this section, unless the commissioner has given [his prior] the commissioner's approval thereto after [the] a hearing [required under] held pursuant to section 38a-132, as amended by this act. For purposes of subdivision (3) of this subsection, the acquisition, directly or indirectly, of ten per cent or more of the voting securities of any corporation [which] that is not itself a domestic insurance company but [which] that controls a domestic insurance company, whether by tender offer, exchange offer [ ] or otherwise, or the voting of proxies representing ten per cent or more of the voting securities of any such corporation shall be presumed to be the effectuation of an acquisition of control of a domestic insurance company referred to in subsection (c) of this section.

(e) The courts of this state hereby are vested with jurisdiction over every person not resident, domiciled or authorized to do business in this state who files a statement with the commissioner under subsection (a) of this section [ ] and [overall] over all actions involving such persons arising out of violations of this section. [ , and each] Each such person shall be deemed to have performed acts equivalent to and constituting an appointment by such [a] person of the commissioner to be [his] such person's true and lawful attorney upon whom may be served all lawful process in any action, suit or proceeding arising out of violations of this section. Copies of all such lawful process shall be served on the commissioner in accordance with section 38a-26.

**Substitute Senate Bill No. 411**

Sec. 3. Section 38a-131 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

[If any offer, invitation, request, agreement or acquisition referred to in section 38a-130 is proposed to be made by means of a registration statement under the Securities Act of 1933 or in circumstances requiring the disclosure of similar information under the Securities Exchange Act of 1934, the person required to file the statement referred to in said section 38a-130 may utilize such documents in furnishing the information required by said section to the extent that the registration statement contains such information.]

(a) For purposes of this section, (1) "acquisition" includes any agreement, arrangement or activity the consummation of which will result in a person acquiring, directly or indirectly, the control of another through the acquisition of voting securities, assets or bulk reinsurance or through a merger, and (2) "involved insurer" means (A) an insurance company that acquires or is acquired by another person, (B) is affiliated with an insurance company that acquires or is acquired by another person, or (C) an insurance company that is the result of a merger.

(b) The provisions of this section shall apply to any acquisition in which there will be a change of control of an insurance company authorized to do business in this state, except for the following:

(1) A purchase of securities solely for investment purposes, provided such securities are not used by voting or otherwise to cause or attempt to cause substantial reduction of competition in any insurance market in this state. If a purchase of securities results in a presumption of control as set forth in subdivision (3) of subsection (b) of section 38a-129, as amended by this act, such purchase shall be deemed not to be solely for investment purposes unless (A) the insurance regulatory official of such insurance company's state of

***Substitute Senate Bill No. 411***

domicile accepts a disclaimer of control from such insurance company or such regulatory official affirmatively finds that control does not exist, and (B) such regulatory official communicates such disclaimer or affirmative finding to the commissioner;

(2) The acquisition of a person by another person when neither person is directly or through affiliates primarily engaged in the business of insurance;

(3) The acquisition of an affiliate;

(4) An acquisition if, as an immediate result of such acquisition, (A) the combined market share of the involved insurers will not exceed five per cent of the total market in any market, (B) there will be no increase in any market share, or (C) (i) the combined market share of the involved insurers will not exceed twelve per cent of the total market in any market, and (ii) the market share will not increase more than two per cent of the total market in any market;

(5) An acquisition for which a preacquisition notification would be required solely due to the resulting effect on the ocean marine insurance line of business in this state;

(6) An acquisition of an insurance company that is affirmatively determined by the insurance regulatory official of such insurance company's state of domicile to be in failing condition and (A) there is a lack of a feasible alternative to improving such condition, (B) the public benefits of improving such insurance company's condition through the acquisition exceed the public benefits that would arise from not causing a reduction in competition in this state, and (C) such regulatory official has communicated such determination and findings to the Insurance Commissioner.

(c) For an acquisition not exempt under subsection (b) of this section, the acquiring party shall file a preacquisition notification in

***Substitute Senate Bill No. 411***

accordance with this section and the acquired party may file a preacquisition notification. The commissioner shall treat any information filed under this subsection as confidential in the same manner as provided under section 38a-137, as amended by this act.

(1) The preacquisition notification shall be in such form and contain such information as the National Association of Insurance Commissioners prescribes. The commissioner may require additional material and information the commissioner deems necessary, including, but not limited to, the opinion of an economist as to the impact of the proposed acquisition on competition in this state, to evaluate whether the proposed acquisition will violate the competitive standard described in subsection (d) of this section.

(2) There shall be a waiting period after the acquiring party files the preacquisition notification. Such waiting period shall begin on the date the commissioner receives the preacquisition notification and shall end on the thirtieth day after such date or upon termination by the commissioner of such waiting period, whichever is earlier. Prior to the end of the waiting period, the commissioner may require, on a one-time basis, the acquiring party or the acquired party to submit additional needed information relevant to the proposed acquisition, in which case the waiting period shall end on the thirtieth day after the commissioner receives the additional information or upon termination by the commissioner of such waiting period, whichever is earlier.

(d) (1) For a proposed acquisition not exempt under subsection (b) of this section, the commissioner shall evaluate whether such proposed acquisition will reduce substantially competition in any line of insurance business in this state or tend to create a monopoly in this state. In making such evaluation, the commissioner shall consider the percentages of market share the involved insurers possess and the market in which the involved insurers compete.

**Substitute Senate Bill No. 411**

(A) (i) With respect to an acquisition involving more than two involved insurers, if a comparison of the percentage of market share of the insurance company with the largest market share, designated as Insurer A, against each involved insurer shows for any such comparison that the percentages exceed those in the tables set forth in this subparagraph, such showing shall be prima facie evidence of a violation of the competitive standards described in this subdivision. Percentages not shown in the tables shall be interpolated proportionately to the percentages shown:

(I) In a highly concentrated market and the involved insurers possess the following shares of the market:

<u>Insurer A</u>	<u>Insurer B</u>
<u>4%</u>	<u>4% or more</u>
<u>10%</u>	<u>2% or more</u>
<u>15%</u>	<u>1% or more</u>

or;

(II) In a market not highly concentrated and the involved insurers possess the following shares of the market:

<u>Insurer A</u>	<u>Insurer B</u>
<u>5%</u>	<u>5% or more</u>
<u>10%</u>	<u>4% or more</u>
<u>15%</u>	<u>3% or more</u>
<u>19%</u>	<u>1% or more</u>

(ii) For purposes of this subparagraph, a highly concentrated market is one in which the share of the four largest insurance companies is seventy-five per cent or more of the market.

(B) (i) An acquisition involving two or more involved insurers competing in the same market shall be prima facie evidence of a

***Substitute Senate Bill No. 411***

violation of the competitive standards described in this subdivision if (I) there is a significant trend toward increased concentration in the market, (II) one of the involved insurers is included in a grouping of large insurance companies that shows the increase in market share specified in subparagraph (B)(ii) of this subdivision, and (III) another involved insurer's market share is two per cent or more.

(ii) For purposes of this subparagraph, there is a significant trend toward increased concentration in the market when the aggregate market share for any grouping of the largest insurance companies in the market, from the two largest to the eight largest, has increased by seven per cent or more of the market over a period extending from any base year not less than five years and not more than ten years prior to the proposed acquisition.

(2) For purposes of subdivision (1) of this subsection, "market" means the relevant product and geographical markets. In determining the relevant product and geographical markets, the commissioner shall give due consideration to (A) definitions or guidelines, if any, promulgated by the National Association of Insurance Commissioners, (B) information submitted, if any, by an acquiring party or an acquired party, and (C) any other information the commissioner deems relevant. In the absence of sufficient information to the contrary, the relevant product market shall be the direct written insurance premium for a line of business, such line being that used in the annual statement insurance companies doing business in this state are required to file with the commissioner, and the relevant geographical market shall be this state.

(3) (A) An acquiring party or an acquired party may rebut a prima facie violation set forth in subdivision (1) of this subsection based on substantial evidence of the absence of the requisite anticompetitive effect. Factors relevant to such rebuttal include, but are not limited to, the involved insurers' market shares, the volatility of market leader

***Substitute Senate Bill No. 411***

rankings, the number of competitors in the market, the concentration and the trend in concentration in the insurance industry and ease of entry to and exit from the market.

(B) The commissioner may find, based on substantial evidence, a violation of the competitive standards described in subdivision (1) of this subsection that is not a prima facie violation as set forth in said subdivision (1).

(e) (1) (A) If the commissioner finds that a proposed acquisition violates the competitive standards described in subdivision (1) of subsection (d) of this section or if an acquiring party fails to file or fails to provide adequate information in the preacquisition notification required under subsection (c) of this section, the commissioner may issue an order, after notice and hearing, (i) directing an involved insurer to cease and desist from doing business in this state with respect to any line of insurance involved in the violation, or (ii) denying the application of an involved insurer for a license to do business in this state.

(B) The commissioner shall not issue such order unless (i) there is a hearing, (ii) notice of the hearing is provided to the involved insurers prior to the end of the waiting period specified in subsection (c) of this section and not less than fifteen days prior to the hearing, and (iii) the hearing is concluded and the order issued not later than sixty days after the date the acquiring party filed the preacquisition notification under subsection (c) of this section. Any such order shall be accompanied by a written decision by the commissioner setting forth findings of fact and conclusions of law.

(C) Any person who violates a cease and desist order of the commissioner may, after notice and hearing, be fined not more than ten thousand dollars for each day of such violation or be subject to suspension or revocation of such person's license or both.

**Substitute Senate Bill No. 411**

(D) An order issued pursuant to this subdivision shall not apply if the proposed acquisition is not consummated.

(2) The commissioner shall not issue an order under subdivision (1) of this subsection if:

(A) The proposed acquisition will yield substantial economies of scale or economies in resource utilization that cannot be feasibly achieved in any other way and the public benefits that would arise from such economies exceed the public benefits that would arise from not causing a reduction in competition in this state; or

(B) The proposed acquisition will substantially increase the availability of insurance in this state and the public benefits of such increase exceed the public benefits that would arise from not causing a reduction in competition in this state.

(f) Any person that fails to make a filing required under this section and fails to demonstrate a good faith effort to comply with such filing requirement shall be fined not more than fifty thousand dollars.

Sec. 4. Section 38a-132 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

[(a) (1) The commissioner shall hold a public hearing on the question of the granting of his approval under section 38a-130 within thirty days after the statement required by said section containing all the information, as determined by the commissioner, is filed with him, and at least twenty days notice thereof shall be given by the commissioner to the person filing the statement. No less than fifteen days' notice of such public hearing shall be given by the person filing the statement to the insurance company and to such other persons as may be designated by the commissioner. If any amendment to the statement is filed, the public hearing may be postponed by the commissioner for a reasonable period not to exceed thirty days after

**Substitute Senate Bill No. 411**

the filing of such amendment. The commissioner shall make a determination within thirty days after the conclusion of the hearing.

(2) The person filing the statement, the insurance company, any person to whom notice of hearing was sent and any other affected person shall have the right to present evidence, have counsel, examine or cross-examine witnesses and offer oral and written argument; and in connection therewith shall be entitled to conduct discovery proceedings in the same manner as is prescribed by the rules for the Superior Court. All discovery proceedings shall be concluded not later than three days prior to the commencement of the public hearing.

(3) The commissioner may engage the services of, at the acquiring person's expense, any attorneys, actuaries, accountants and other experts not otherwise a part of the commissioner's staff as may be reasonably necessary to assist the commissioner in reviewing the proposed acquisition of control.]

[(b) (1)] (a) The commissioner shall approve any merger or other acquisition of control referred to in subsection (a) of [this] section 38a-130, as amended by this act, unless, after a public hearing, [he] the commissioner finds that:

[(A)] (1) After the change of control, the domestic insurance company referred to in subsection (a) of [this] section 38a-130, as amended by this act, would not be able to satisfy the requirements for the issuance of a license to write the line or lines of business for which it is presently licensed;

[(B)] (2) (A) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein. The commissioner shall consider the information required under subdivision (1) of subsection (c) of section 38a-131, as amended by this act, and the considerations

***Substitute Senate Bill No. 411***

specified in subdivision (1) of subsection (d) of section 38a-131, as amended by this act, in evaluating the effect of the merger or other acquisition of control on competition in this state.

(B) The commissioner shall not disapprove the merger or other acquisition of control on the basis of this subparagraph if the commissioner finds that a situation as described in subdivision (2) of subsection (e) of section 38a-131, as amended by this act, exists.

(C) The commissioner may condition the approval of the merger or other acquisition of control on the correction or removal, within a specified period of time, of the basis of the commissioner's disapproval under this subparagraph;

[(C)] (3) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurance company or prejudice the interests of its policyholders;

[(D)] (4) The plans or proposals [which] of the acquiring party [has] to liquidate the insurance company, sell [its] such insurance company's assets or consolidate or merge [it] such insurance company with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurance company and not in the public interest;

[(E)] (5) The competence, experience and integrity of those persons who would control the operation of the insurance company are such that it would not be in the interest of policyholders of the insurance company and of the public to permit the merger or other acquisition of control; or

[(F)] (6) The acquisition is likely to be hazardous or prejudicial to those buying insurance.

[(2) For purposes of this subsection, "other acquisition of control"

***Substitute Senate Bill No. 411***

includes any offer, request, invitation, agreement, solicitation, or acquisition subject to section 38a-130.]

(b) (1) Any public hearing held by the commissioner pursuant to subdivision (1) of subsection (a) of this section shall be held not later than thirty days after the statement required by section 38a-130, as amended by this act, is filed with the commissioner. The commissioner shall provide at least twenty days' notice of such hearing to the person filing the statement. The person filing the statement shall (A) provide at least seven days' notice of such public hearing to the insurance company and to such other persons as may be designated by the commissioner, (B) publish, in a manner prescribed by the commissioner, notice of such hearing in a newspaper of general circulation in the city of Hartford and in such other municipality as the commissioner may direct, and (C) provide notice in such other manner as the commissioner deems appropriate under the circumstances. If any amendment to the statement is filed, the commissioner may postpone the public hearing for a reasonable period not to exceed thirty days after the filing of such amendment.

(2) The person filing the statement, the insurance company, any person to whom notice of hearing was sent and any other person whose interest may be affected shall have the right at the hearing to present evidence, have counsel, examine and cross-examine witnesses and offer oral and written argument; and in connection therewith shall be entitled to conduct discovery proceedings in the same manner as is prescribed by the rules for the Superior Court. All discovery proceedings shall be concluded not later than three days prior to the commencement of the public hearing.

(3) If a proposed merger or other acquisition of control under section 38a-130, as amended by this act, requires the approval of any other insurance regulatory official of another state, a public hearing may be held on a consolidated basis at the discretion of the

***Substitute Senate Bill No. 411***

commissioner. Such hearing shall be held within the United States before the insurance regulatory officials of the states in which the insurance companies are domiciled, who shall hear and receive evidence. An insurance regulatory official may attend such hearing in person or by telecommunication.

(4) The commissioner shall make a determination not later than thirty days after the conclusion of the hearing whether to approve such merger or other acquisition of control. If there will be a change of control of a domestic insurance company, the commissioner shall additionally make a determination not later than thirty days after the conclusion of the hearing whether the acquiring party shall be required to maintain or restore such insurance company's capital to the level required under title 38a.

(c) All expenses incurred by the commissioner in connection with the proceedings under this section, including expenses for the services of any attorneys, actuaries, accountants and other experts not otherwise a part of the commissioner's staff as may be reasonably necessary to assist the commissioner in reviewing the proposed merger or other acquisition of control shall be paid by the person filing the statement required by section 38a-130, as amended by this act.

Sec. 5. Section 38a-133 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

The provisions of sections 38a-130 [~~38a-131,~~] and 38a-132, as amended by this act, and subsection (i) of section 38a-136, as amended by this act, shall not apply to [[: Any] any offer, request, invitation, agreement or acquisition [which] that the commissioner by order shall exempt therefrom as [(A)] (1) not having been made or entered into for the purpose and not having the effect of changing or influencing the control of a domestic insurance company, or [(B) as] (2) otherwise not comprehended within the purposes of sections 38a-129 to 38a-140,

**Substitute Senate Bill No. 411**

inclusive, as amended by this act.

Sec. 6. Section 38a-135 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) Every insurance company [which] that is authorized to do business in this state and [which] is a member of an insurance holding company system shall register with the commissioner on a form prescribed by [him] the commissioner. Any insurance company [which] that is subject to registration under this section shall register [within] not later than fifteen days after it becomes subject to registration, and annually thereafter by June first of each year for the previous calendar year, unless the commissioner, for good cause shown, extends the time for registration, in which case it shall register within such extended time.

(b) (1) Every insurance company subject to registration shall file a registration statement [which] that shall contain the following current information:

[(1)] (A) The capital structure, general financial condition, ownership and management of the insurance company and any person controlling the insurance company;

[(2)] (B) The identity and relationship of every member of the insurance holding company system;

[(3)] (C) The following agreements in force, and transactions outstanding or [which] that have occurred during the last calendar year between such insurance company and its affiliates: (i) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the insurance company or of the insurance company by its affiliates; (ii) purchases, sales or exchanges of assets; (iii) transactions not in the ordinary course of business; (iv) guarantees or undertakings for the benefit of an affiliate [which] that result in an actual contingent

**Substitute Senate Bill No. 411**

exposure of the insurance company's assets to liability, other than insurance contracts entered into in the ordinary course of the insurance company's business; (v) management agreements, service contracts and cost-sharing arrangements; (vi) reinsurance agreements; (vii) dividends and other distributions to securityholders; and (viii) consolidated tax allocation agreements;

[(4)] (D) Any pledge of the insurance company's stock, including stock of any subsidiary or controlling affiliate, for a loan made to any member of the insurance holding company system; [and]

(E) If requested by the commissioner, financial statements of or within an insurance holding company system, including all affiliates. Such statements may include, but are not limited to, annual audited financial statements filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended from time to time, or the Securities Exchange Act of 1934, as amended from time to time. An insurance company required to file financial statements under this subparagraph may provide the commissioner with its parent corporation's financial statements that are most recently filed with said commission;

(F) Statements that the insurance company's board of directors oversees corporate governance and internal controls of such company, and that such company's officers or senior management have approved, implemented and continue to maintain such governance and controls;

[(5)] (G) Other matters concerning transactions between registered insurance companies and any affiliates as may be included from time to time in any registration forms adopted or approved by the commissioner; and

(H) Any other information required by regulations adopted in

**Substitute Senate Bill No. 411**

accordance with the provisions of chapter 54.

[(c)] (2) All registration statements shall contain a summary outlining all items in the current registration statement representing changes from the prior registration statement.

[(d)] (c) No information need be disclosed on the registration statement filed pursuant to subsection (b) of this section if such information is not material for the purposes of this section. Unless the commissioner by regulation or order provides otherwise, sales, purchases, exchanges, loans or extensions of credit, investments, or guarantees involving one-half of one per cent or less of the insurance company's admitted assets as of the thirty-first day of December next preceding shall not be deemed material for purposes of this section.

[(e)] (d) Subject to subsection (b) of section 38a-136, as amended by this act, each registered insurance company shall report to the commissioner all dividends and other distributions to securityholders [within] not later than fifteen business days [following] after the declaration thereof or such other period as the commissioner shall prescribe by regulation.

[(f)] (e) Any person within an insurance holding company system subject to registration shall be required to provide complete and accurate information to an insurance company, where such information is reasonably necessary to enable the insurance company to comply with the provisions of sections 38a-129 to 38a-140, inclusive, as amended by this act.

(f) (1) The ultimate controlling person of each insurance company subject to registration under this section shall file an annual enterprise risk report in a form and manner prescribed by the commissioner. The initial report shall not be filed prior to June 1, 2013. The annual enterprise risk report shall identify, to the best of such person's

***Substitute Senate Bill No. 411***

knowledge and belief, the material risks within the insurance holding company system that could pose enterprise risk to the insurance company. The report shall be filed with the lead state commissioner as determined by the procedures in NAIC's applicable financial analysis handbook. Such report shall (A) be confidential by law and privileged, (B) not be subject to disclosure under section 1-210, (C) not be subject to subpoena, and (D) not be subject to discovery or admissible in any civil action. The commissioner shall not make such report public without the prior written consent of the ultimate controlling person that filed such report unless the commissioner, after giving the ultimate controlling person and the insurance company to which such report pertains and its affiliates within the insurance holding company system who would be affected thereby notice and opportunity to be heard, determines that the interests of policyholders, securityholders or the public will be served by the publication thereof, in which event the commissioner may publish all or any part thereof in such manner as the commissioner may deem appropriate. The commissioner may use such report in the furtherance of any regulatory or legal action brought as part of the commissioner's official duties.

(2) The commissioner may share the enterprise risk report only with the insurance regulatory official of another state with laws or regulations substantially similar to subsection (a) of section 38a-137, as amended by this act, and who has agreed, in writing, to maintain the confidentiality and privileged status of such report.

(g) The commissioner shall terminate the registration of any insurance company [which] that demonstrates that it no longer is a member of an insurance holding company system.

(h) The commissioner may require or allow two or more affiliated insurance companies subject to registration hereunder to file a consolidated registration statement.

**Substitute Senate Bill No. 411**

(i) The commissioner may allow an insurance company [which] that is authorized to do business in this state and [which] is part of an insurance holding company system to register on behalf of any affiliated insurer [which] that is required to register under subsection (a) of this section and to file all information and materials required to be filed under this section.

(j) Any person may file with the commissioner a disclaimer of affiliation with any insurance company and any insurance company may file a disclaimer of affiliation with any other person. The disclaimer shall fully disclose all material relationships and bases for affiliation between such person and such insurance company as well as the basis for disclaiming such affiliation. After a disclaimer has been filed, the insurance company shall be relieved of any duty to register or report under this section [which] that may arise out of the insurance company's relationship with such person unless [and until] the commissioner disallows such disclaimer. The commissioner shall disallow such disclaimer only after furnishing all parties in interest with notice and an opportunity to be heard, and after making specific findings of fact to support such disallowance.

(k) The failure to file a registration statement or any amendment, [or] addition thereto or summary or an enterprise risk report required by this section within the time specified for such filing shall be a violation of sections 38a-129 to 38a-140, inclusive, as amended by this act.

(l) The commissioner may by regulation or order exempt any insurance company or class of insurance companies from registration under this section if, in [his] the commissioner's judgment, registration by such company or class of companies is not necessary to effectuate the purposes of said sections.

(m) A foreign or alien insurer shall not be required to register

**Substitute Senate Bill No. 411**

pursuant to this section if it is (1) subject to disclosure requirements and standards adopted by statute or regulation in the jurisdiction of its domicile [which] that are substantially similar to those contained in this section and subsections (a), (b), (f) and (g) of section 38a-136, as amended by this act, or [if it is] (2) admitted in the domiciliary jurisdiction of the principal insurer in its holding company system and in said jurisdiction is subject to disclosure requirements and standards adopted by statute or regulation [which] that are substantially similar to those contained in this section and subsections (a), (b), (f) and (g) of section 38a-136, as amended by this act. The commissioner may require any authorized insurer [which] that is a member of a holding company system [which is] not subject to registration under this section to furnish a copy of the registration statement or other information filed by such insurance company with the insurance regulatory authority of its domicile or the domicile of the principal insurer in its holding company system, as the case may be.

(n) (1) To assess the business strategy, financial, legal or regulatory position risk exposure, risk management or governance processes of a domestic insurance company registered under this section that is part of an insurance holding company system that has international operations, and as part of the examination pursuant to section 38a-14a, as amended by this act, of such insurance company, the commissioner may initiate, be a member of or participate in a supervisory college, which shall be a temporary or permanent forum for communication between and cooperation among state, federal and international regulatory officials.

(2) If the commissioner initiates a supervisory college, the commissioner shall (A) establish the membership of, and participation by state, federal or international regulatory officials in, such supervisory college, (B) establish the functions of the supervisory college and the role of members and participants, and select a

**Substitute Senate Bill No. 411**

chairperson for such supervisory college, (C) coordinate the activities of the supervisory college, including meeting planning and processes for information sharing that comply with the applicable confidentiality provisions set forth in section 38a-137, as amended by this act, and (D) establish a crisis management plan for such supervisory college.

(3) The commissioner may enter into written agreements with state, federal or international regulatory officials for the governing of the activities of a supervisory college. Any such agreements shall maintain the confidentiality requirements under section 38a-137, as amended by this act.

(4) Each insurance company subject to registration under this section shall be assessed for and shall pay to the commissioner its share of the reasonable costs, including reasonable travel expenses, of the commissioner's participation in a supervisory college. Such payment shall be in addition to any other taxes, fees and moneys otherwise payable to the state. The commissioner shall establish the assessment method for such costs and provide reasonable notice to each insurance company subject to any such assessment.

(5) Nothing in this subsection shall be construed to limit the authority of the commissioner to regulate an insurance company or its affiliate under the commissioner's jurisdiction or to delegate any regulatory authority of the commissioner to a supervisory college.

Sec. 7. Section 38a-136 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) Transactions within [a] an insurance holding company system to which an insurance company subject to registration under section 38a-135, as amended by this act, is a party shall be subject to the following requirements: (1) The terms shall be fair and reasonable; (2) charges or fees for services performed shall be reasonable; (3) expenses incurred

***Substitute Senate Bill No. 411***

and payment received shall be allocated to the insurance company in conformity with customary insurance accounting practices consistently applied; (4) the books, accounts and records of each party shall be so maintained as to clearly and accurately disclose the precise nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties; [and] (5) the insurance company's surplus shall be reasonable in relation to such company's outstanding liabilities and adequate to its financial needs; and (6) agreements for cost-sharing services and management shall include such provisions as may be required by regulations adopted by the commissioner.

(b) (1) The following transactions involving a domestic insurance company and any person in its holding company system, including amendments to or modifications of affiliate agreements previously filed pursuant to this section and that are subject to any materiality standards specified in subparagraphs (A) to (G), inclusive, of this subdivision, may not be entered into unless the insurance company has notified the commissioner in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as the commissioner may permit, and the commissioner [either] has approved or not disapproved it within such period. The written notice for such amendments or modifications shall specify the reasons for the change and the financial impact on the domestic insurance company. Not later than thirty days after the termination of a previously filed agreement, the domestic insurance company shall notify the commissioner of such termination for the commissioner's determination of what written notice or filing shall be required, if any:

[(1)] (A) Sales, purchases, exchanges, loans or extensions of credit, [guarantee] or investments, provided such transactions are equal to or exceed: [(A)] (i) With respect to nonlife insurance companies, the lesser of three per cent of the insurance company's admitted assets or twenty-

**Substitute Senate Bill No. 411**

five per cent of surplus; or [(B)] (ii) with respect to life insurance companies, three per cent of the insurance company's admitted assets; each as of the thirty-first day of December next preceding;

[(2)] (B) Loans or extensions of credit to any person who is not an affiliate, where the insurance company makes such loans or extensions of credit with the agreement or understanding that the proceeds of such transactions, in whole or in substantial part, are to be used to make loans or extensions of credit to, to purchase assets of, or to make investments in, any affiliate of the insurance company making such loans or extensions of credit, provided such transactions are equal to or exceed: [(A)] (i) With respect to nonlife insurance companies, the lesser of three per cent of the insurance company's admitted assets or twenty-five per cent of surplus; or [(B)] (ii) with respect to life insurance companies, three per cent of the insurance company's admitted assets; each as of the thirty-first day of December next preceding;

[(3)] (C) Reinsurance agreements or modifications thereto, including (i) all reinsurance pooling agreements, and (ii) agreements in which the reinsurance premium or a change in the insurance company's liabilities equals or exceeds five per cent of the insurance company's surplus, as of the thirty-first day of December next preceding, including those agreements [which] that may require as consideration the transfer of assets from an insurance company to a nonaffiliate, if an agreement or understanding exists between the insurance company and nonaffiliate that any portion of such assets will be transferred to one or more affiliates of the insurance company;

[(4)] (D) All [material] management agreements, service contracts and cost-sharing arrangements; [and]

(E) Guarantees by a domestic insurance company, except that a guarantee that is (i) quantifiable as to amount, and (ii) does not exceed the lesser of one-half of one per cent of the insurance company's

***Substitute Senate Bill No. 411***

admitted assets or ten per cent of surplus with regard to policyholders, as of the thirty-first day of December next preceding, shall not be subject to the notice requirement of this subsection;

(F) Direct or indirect acquisitions or investments in a person that controls the domestic insurance company or in an affiliate of the insurance company in an amount that, together with the insurance company's present holdings in such investments, exceeds two and one-half per cent of the insurance company's surplus with regard to policyholders. This subsection shall not apply to direct or indirect acquisitions of or investments in (i) subsidiaries acquired pursuant to section 38a-102d or authorized pursuant to any section of this title other than sections 38a-129 to 38a-140, inclusive, as amended by this act, or (ii) nonsubsidiary affiliates that are subject to the provisions of sections 38a-129 to 38a-140, inclusive, as amended by this act; and

~~[(5)]~~ (G) Any material transactions, specified by regulation, [which] that the commissioner determines may adversely affect the interests of the insurance company's policyholders.

~~(2)~~ Nothing contained in this section shall be deemed to authorize or permit any transactions [which] that, in the case of an insurance company not a member of the same insurance holding company system, would be otherwise contrary to law.

(c) A domestic insurance company may not enter into transactions [which] that are part of a plan or series of like transactions with persons within the insurance holding company system if the purpose of those separate transactions is to avoid the statutory threshold amount and thus avoid the review that would otherwise occur. If the commissioner determines that such separate transactions were entered into over any twelve-month period for such purpose, the commissioner may exercise authority under section 38a-140, as amended by this act.

**Substitute Senate Bill No. 411**

(d) The commissioner, in reviewing transactions pursuant to subsection (b) of this section, shall consider whether the transactions comply with the standards set forth in subsection (a) of this section and whether they may adversely affect the interests of policyholders.

(e) Except as may be exempted pursuant to regulations adopted, in accordance with the provisions of chapter 54, by the commissioner or otherwise waived by the commissioner, the commissioner shall be notified ~~[within]~~ not later than thirty days ~~[of]~~ after any material investment of the domestic insurance company in any one corporation if the total investment in such corporation by ~~[the]~~ such insurance ~~[company]~~ company's insurance holding company system exceeds ten per cent of such corporation's voting securities.

(f) (1) No insurance company subject to registration under section 38a-135, as amended by this act, shall pay any extraordinary dividend or make any other extraordinary distribution to its stockholders until the commissioner has approved such payment or until thirty days after the commissioner has received notice from such company of the declaration thereof within which period the commissioner has not disapproved such payment, whichever is sooner. For the purposes of this subsection, an extraordinary dividend or distribution is any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding twelve months, exceeds the greater of ~~[(1)]~~ (A) ten per cent of such insurance company's surplus as of the thirty-first day of December last preceding, or ~~[(2)]~~ (B) the net gain from operations of such insurance company, if such company is a life insurance company, or the net income, if such company is not a life insurance company, for the twelve-month period ending the thirty-first day of December last preceding, but shall not include pro rata distributions of any class of the insurance company's own securities.

(2) Notwithstanding any other provision of law, an insurance

**Substitute Senate Bill No. 411**

company may declare an extraordinary dividend or distribution [which] that is conditional upon the commissioner's approval thereof, but such a declaration shall confer no rights upon stockholders until [(1)] (A) the commissioner has approved the payment of such dividend or distribution, or [(2)] thirty days have elapsed without the commissioner's disapproval thereof as provided in this subsection] (B) until thirty days after such declaration thereof within which period the commissioner has not disapproved such declaration, whichever is sooner.

(g) For purposes of sections 38a-129 to 38a-140, inclusive, as amended by this act, in determining whether an insurance company's surplus is reasonable in relation to the insurance company's outstanding liabilities and adequate to its financial needs, the following factors, in addition to others, shall be considered: (1) The size of the insurance company as measured by its assets, capital and surplus, reserves, premium writings, insurance in force and other appropriate criteria; (2) the extent to which the insurance company's business is diversified among the several lines of insurance; (3) the number and size of risks insured in each line of business; (4) the nature of the geographical dispersion of the insurance company's insured risks; (5) the nature and extent of the insurance company's reinsurance program; (6) the quality, diversification and liquidity of the insurance company's investment portfolio; (7) the recent past and projected future trend in the size of the insurance company's surplus; (8) the surplus maintained by other comparable insurance companies; (9) the adequacy of the insurance company's reserves; (10) the quality of the company's earnings and the extent to which the reported earnings include extraordinary items; and (11) the quality and liquidity of investments in affiliates. The commissioner may discount any such investment or treat any such investment as a disallowed asset for purposes of determining the adequacy of surplus whenever, in the commissioner's judgment, such investment warrants.

**Substitute Senate Bill No. 411**

(h) (1) Any domestic insurance company [which] that is affiliated with an insurance holding company system shall report for informational purposes to the Insurance Commissioner all dividends and other distributions to securityholders, [within] not later than five business days [following] after the declaration and at least ten days, commencing from the date of receipt by the Insurance Department, prior to payment thereof.

(2) No dividend or other distribution may be paid when the surplus of the insurance company is less than the surplus required by section 38a-72 for the kind or kinds of business authorized to be transacted by such company, nor when the payment of a dividend or other distribution would reduce its surplus to less than such amount.

(3) Except as otherwise provided by law, no dividend or other distribution exceeding an amount equal to an insurance company's earned surplus may be paid without the Insurance Commissioner's prior approval. For purposes of this subsection, "earned surplus" means "unassigned funds-surplus", as defined in the annual report of the insurance company [which] that was most recently submitted pursuant to section 38a-53, reduced by twenty-five per cent of unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as defined in such report.

(i) (1) [Any] The commissioner may require a domestic insurance company of which control has been acquired pursuant to section 38a-130, as amended by this act, [shall be required] to submit to a financial examination and a market conduct examination within thirty days after such acquisition in accordance with procedures set forth by [the] NAIC's examiner's handbook [of the National Association of Insurance Commissioners] and such regulations as the commissioner may adopt.

(2) No domestic insurance company of which control has been acquired pursuant to section 38a-130, as amended by this act, shall,

**Substitute Senate Bill No. 411**

without the prior approval of the commissioner: (A) Pay or propose to pay any dividend during the period of two years from the date of acquisition of control of such insurance company; (B) acquire or enter into an agreement or understanding to acquire control, during the period of three years after the date of acquisition of control of such insurance company, of any other person or persons whose assets exceed twenty-five million dollars; (C) provide or propose to provide directly or indirectly, during the period of three years after the date of acquisition of control of such insurance company, any loans, advances, guarantees, pledges or other financial assistance; or (D) engage in any material transaction with any person during the period of three years after the date of acquisition of such insurance company. For purposes of this subsection, a "material transaction" shall include, but not be limited to, any transfer or encumbrance of assets not in the ordinary course of business [which] that, together with all other transfers or encumbrances made within the preceding twelve months, exceeds in value the greater of (i) ten per cent of such insurance company's surplus as of the December thirty-first last preceding, or (ii) the net gain from operations of such insurance company, if such company is a life insurance company, or the net investment income of such company, if such company is not a life insurance company, for the twelve-month period ending the December thirty-first last preceding.

(3) The commissioner shall, upon a written request from the controlled domestic insurance company and, upon public hearing after notice to all interested parties, determine whether any limitations contained in subdivision (2) of this subsection shall be continued, or whether and on what conditions they may be waived. Such determination shall be predicated on the results of the examinations [provided in] under subdivision (1) of this subsection and such further examinations, if any, the commissioner may require concerning the adequacy of the insurance company's reserves, the effect any proposed transaction will have on the insurance company's surplus, its cash flow

**Substitute Senate Bill No. 411**

needs and its ability to satisfy any reasonably anticipated obligations in the foreseeable future, and any other effect the proposed transaction would have on the financial stability or solvency of the insurance company and the quality and liquidity of its assets. All fees and expenses relating to such examinations shall be paid by the insurance company.

(4) Nothing in this subsection shall be interpreted to prohibit any transactions between a domestic insurance company and any of its subsidiaries in the ordinary course of business.

Sec. 8. Section 38a-137 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) All information, documents, materials and copies thereof obtained by or disclosed to the commissioner or any other person in the course of an examination or investigation made pursuant to section 38a-14a, as amended by this act, and all information reported, furnished or filed pursuant to sections 38a-135 and 38a-136, as amended by this act, shall (1) be [given] confidential [treatment] by law and [shall] privileged, (2) not be subject to disclosure under section 1-210, (3) not be subject to subpoena, and [shall] (4) not be [made public by the commissioner, the National Association of Insurance Commissioners, or any other person, except to insurance departments of other states,] subject to discovery or admissible in evidence in any civil action. The commissioner shall not make such information, documents, materials or copies public without the prior written consent of the insurance company to which it pertains unless the commissioner, after giving the insurance company and its affiliates who would be affected thereby notice and opportunity to be heard, determines that the interests of policyholders, securityholders or the public will be served by the publication thereof, in which event [he] the commissioner may publish all or any part thereof in such manner as [he] the commissioner may deem appropriate. The commissioner

***Substitute Senate Bill No. 411***

may use such information, documents, materials or copies in the furtherance of any regulatory or legal action brought as part of the commissioner's official duties.

(b) Neither the commissioner nor any person who receives information, documents, materials or copies as set forth in subsection (a) of this section or with whom such information, documents, materials or copies are shared, while acting under the authority of the commissioner, shall testify or be required to testify in any civil action concerning such information, documents, materials or copies.

(c) Except as specified in subdivision (2) of subsection (f) of section 38a-135, as amended by this act, to assist the commissioner in the performance of the commissioner's duties, the commissioner:

(1) May share information, documents, materials or copies thereof, including information, documents, materials or copies deemed confidential and privileged pursuant to subsection (a) of this section, with (A) other state, federal and international regulatory officials, (B) NAIC or its affiliate or subsidiaries, (C) the International Association of Insurance Supervisors, (D) the Bank for International Settlements, (E) the Federal Insurance Office, (F) state, federal and international law enforcement authorities, and (G) members or participants of a supervisory college, as described in subsection (n) of section 38a-135, as amended by this act, of which the commissioner is a member or a participant, provided the recipient of any such information, documents, materials or copies agrees, in writing, to maintain the confidentiality and privileged status of such information, documents, materials and copies, and has verified, in writing, the recipient's legal authority to maintain confidentiality;

(2) May receive information, documents, materials or copies thereof, including confidential and privileged information, documents, materials or copies, from NAIC or its affiliates or subsidiaries, the

***Substitute Senate Bill No. 411***

International Association of Insurance Supervisors, the Bank for International Settlements, the Federal Insurance Office, or state, federal and international law enforcement authorities. The commissioner shall maintain as confidential and privileged any information, documents, materials or copies received with notice or the understanding that such information, documents, materials or copies are confidential and privileged under the laws of the jurisdiction that is the source of such information, documents, materials or copies; and

(3) Shall enter into written agreements consistent with this subsection with NAIC and may enter into written agreements consistent with this subsection with the International Association of Insurance Supervisors or the Bank for International Settlements, governing the sharing and use of information, documents, materials or copies thereof shared or received pursuant to sections 38a-129 to 38a-140, inclusive, as amended by this act. Any such agreement shall (A) specify the procedures and protocols regarding the confidentiality and security of information shared (i) with NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements pursuant to sections 38a-129 to 38a-140, inclusive, as amended by this act, and (ii) by NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements with other state, federal or international regulatory officials, (B) specify that the commissioner shall retain ownership of such information and that the use of such information by NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements is subject to the commissioner's discretion, (C) require prompt notice to be given to an insurance company whose confidential information is in the possession of NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements, if NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or

***Substitute Senate Bill No. 411***

the Bank for International Settlements is subject to a request or subpoena for disclosure or production of such information, and (D) require NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements, if any said entity or such affiliate or subsidiary is subject to disclosure of an insurance company's confidential information that has been shared with said entity or such affiliate or subsidiary, to allow such insurance company to intervene in any judicial or administrative action regarding such disclosure or information.

(d) No waiver of any applicable privilege or claim of confidentiality in any information, documents, materials or copies thereof shall occur as a result of disclosure to the commissioner or of sharing in accordance with this section. Nothing in this section shall be construed to delegate any regulatory authority of the commissioner to any person or entity with which any information, documents, materials or copies thereof have been shared.

(e) Any information, documents, materials or copies thereof in the possession of NAIC or its affiliates or subsidiaries, the International Association of Insurance Supervisors or the Bank for International Settlements pursuant to this section shall be confidential by law and privileged and shall not be subject to discovery or admissible in evidence in any civil action in this state.

Sec. 9. Section 38a-138 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

The commissioner may, after a public hearing called for the purpose, notice of which hearing shall be published in the Connecticut Law Journal at least thirty days prior to the date of such hearing, promulgate such regulations, in accordance with chapter 54, as shall be necessary to carry out the provisions of sections 38a-129 to 38a-140, inclusive, as amended by this act.

**Substitute Senate Bill No. 411**

Sec. 10. Section 38a-140 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) (1) Whenever it appears to the commissioner that any insurance company or any director, officer, employee or agent thereof has committed or is about to commit a violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, or of any regulation or order issued by the commissioner hereunder, the commissioner may apply to the superior court or any judge thereof for the judicial district in which the principal office of the insurance company is located or, if such insurance company has no such office in this state, to the superior court or any judge thereof for the judicial district of Hartford, for an order enjoining such insurance company or such director, officer, employee or agent thereof from violating or continuing to violate said sections or any such regulation or order, and for such other equitable relief as the nature of the case and the interests of the insurance company's policyholders, creditors and securityholders or the public may require.

(2) No security [which] that is the subject of any agreement or arrangement regarding acquisition, or [which] that is acquired or to be acquired, in contravention of the provisions of sections 38a-129 to 38a-140, inclusive, as amended by this act, or of any regulation or order issued by the commissioner hereunder may be voted at any shareholders' meeting, or may be counted for quorum purposes, and any action of shareholders requiring the affirmative vote of a percentage of shares may be taken as though such securities were not issued and outstanding; but no action taken at any such meeting shall be invalidated by the voting of such securities, unless the action would materially affect control of the insurer or unless the courts of this state have so ordered. If an insurer or the commissioner has reason to believe that any security of the insurer has been or is about to be acquired in contravention of the provisions of sections 38a-129 to 38a-

**Substitute Senate Bill No. 411**

140, inclusive, as amended by this act, or of any regulation or order issued by the commissioner hereunder, the insurer or the commissioner may apply to the superior court or any judge thereof for the judicial district of Hartford, to enjoin any offer, request, invitation, agreement or acquisition made in contravention of sections 38a-129 to 38a-140, inclusive, as amended by this act, or any regulation or order issued by the commissioner thereunder to enjoin the voting of any security so acquired, to void any vote of such security already cast at any meeting of shareholders and for such other equitable relief as the nature of the case and the interest of the insurer's policyholders, creditors and shareholders or the public may require.

(3) In any case where a person has acquired or is proposing to acquire any voting securities in violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, or any regulation or order issued by the commissioner hereunder, the superior court for the judicial district of Hartford, on notice as the court deems appropriate, upon application of the insurer or the commissioner, may seize or sequester any voting securities of the insurer owned directly or indirectly by the person, and issue the order with respect thereto as may be appropriate to effectuate the purposes of sections 38a-129 to 38a-140, inclusive, as amended by this act.

(4) Notwithstanding any other provisions of law, for the purposes of sections 38a-129 to 38a-140, inclusive, as amended by this act, the situs of the ownership of the securities of domestic insurers shall be deemed to be in this state.

(b) Whenever it appears to the commissioner that any person has committed a violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, [which] that so impairs the financial condition of a domestic insurance company as to threaten insolvency or make the further transaction of business by it hazardous to its policyholders, creditors, securityholders or the public, the commissioner may proceed

**Substitute Senate Bill No. 411**

as provided in section 38a-18 to take possession of the property of such domestic insurance company and to conduct the business thereof.

(c) (1) Whenever it appears to the commissioner that any insurance company or any director, officer, employee or agent thereof has committed a wilful violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, the commissioner may cause criminal proceedings to be instituted by the state's attorney for the judicial district in which the principal office of the insurance company is located or, if such insurance company has no such office in the state, by the state's attorney for the judicial district of Hartford against such insurance company or the responsible director, officer, employee or agent thereof. Any insurance company that wilfully violates said sections shall be fined not more than fifty thousand dollars. Any individual who wilfully violates said sections shall be fined not more than fifteen thousand dollars or, if such wilful violation involves the deliberate perpetration of a fraud upon the commissioner, shall be imprisoned not more than two years or so fined or both.

(2) Any officer, director or employee of an insurance holding company system who wilfully and knowingly subscribes to or makes or causes to be made any false statement or false report or false filing with the intent to deceive the commissioner in the performance of his or her duties under sections 38a-129 to 38a-140, inclusive, as amended by this act, upon conviction thereof, shall be imprisoned not more than five years or fined not more than fifty thousand dollars or both. Any fines imposed shall be paid by the officer, director or employee in his or her individual capacity.

(d) (1) Whenever it appears to the commissioner that any person has committed a violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, that makes the continued operation of an insurance company contrary to the interests of its policyholders or the public, the commissioner may, after giving notice and an opportunity

**Substitute Senate Bill No. 411**

to be heard, suspend, revoke or refuse to renew such insurance company's license or authority to do business in this state for such period as [he] the commissioner finds is required for the protection of its policyholders or the public.

(2) Whenever it appears to the commissioner that any person has committed a violation of sections 38a-129 to 38a-140, inclusive, as amended by this act, that prevents the full understanding of the enterprise risk posed by an insurer's insurance holding company system or an insurer's affiliate to such insurer, the commissioner may disapprove dividends and other distributions and place such insurer under administrative supervision in accordance with sections 38a-962 to 38a-962j, inclusive.

(e) Any insurance company failing, without just cause, to file any registration statement as required in section 38a-135, as amended by this act, shall be [required] fined, after notice and hearing, [to pay a penalty of] one hundred fifty dollars for each day's delay, to be [recovered by the commissioner, and the penalty so recovered shall be] paid into the Insurance Fund established under section 38a-52a. The maximum penalty under this section shall be fifteen thousand dollars. The commissioner may reduce the penalty if the insurance company demonstrates to the commissioner that the imposition of the penalty would constitute a hardship to the insurance company.

(f) Each director or officer of any insurance holding company system who wilfully and knowingly violates, participates in, or assents to, or who wilfully and knowingly permits any of the officers or agents of the insurance company to engage in transactions or make investments that have not been properly reported or submitted pursuant to section 38a-135 or 38a-136, as amended by this act, or that violate sections 38a-129 to 38a-140, inclusive, as amended by this act, shall pay, in their individual capacity, a civil forfeiture of not more than seven thousand five hundred dollars per violation, after notice

**Substitute Senate Bill No. 411**

and hearing before the commissioner. Any civil forfeiture so recovered shall be paid into the Insurance Fund as established under section 38a-52a. In determining the amount of the civil forfeiture, the commissioner shall take into account the appropriateness of the forfeiture with respect to the gravity of the violation, the history of previous violations, and such other matters as the commissioner deems necessary.

(g) Whenever it appears to the commissioner that any insurance company subject to sections 38a-129 to 38a-140, inclusive, as amended by this act, or any director, officer, employee or agent thereof has engaged in any transaction or entered into a contract [which] that is subject to section 38a-136, as amended by this act, and [which] that would not have been approved had such approval been requested, the commissioner may order the insurance company to cease and desist immediately any further activity under [that] such transaction or contract. After notice and hearing, the commissioner may also order the insurance company to void any such contracts and restore the status quo if such action is in the best interests of the policyholders, creditors or the public.

(h) If any person required to file an information statement under subsection [(c)] (b) of section 38a-130, as amended by this act, or any required amendment thereto has (1) failed to do so within the prescribed time, [or] (2) files a false or misleading information statement or amendment thereto, [or] (3) obstructed the conduct of any hearing required by the commissioner, or (4) consummated a change of control of the domestic insurance company in the absence of a determination by the commissioner that such change of control would not be prejudicial to the interest of its policyholders, the commissioner [,] and any interested party, including the domestic insurance company, may apply to the superior court for the judicial district of Hartford or to the superior court for the judicial district in which the

**Substitute Senate Bill No. 411**

domestic insurance company has its principal place of business, or to any judge thereof, for any injunctive or other relief necessary to remedy any such act or failure to act. Such relief may include an injunction prohibiting any consummation of the change of control until such act or failure to act is remedied. In addition, the commissioner may proceed under section 38a-912 for an order permitting [him] the commissioner to take possession and control of the property and affairs of the domestic insurance company in accordance with the provisions of said section 38a-912.

Sec. 11. Section 38a-14a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) [Subject] With regard to any insurance company registered under section 38a-135, as amended by this act, subject to the limitation contained in this section and in addition to the powers [which] that the Insurance Commissioner has under sections 38a-14 and 38a-15 relating to the examination of insurance companies, the commissioner shall have the power to: [order any insurance company registered under section 38a-135]

(1) Examine such company or its affiliates to ascertain the financial condition of the company, including the enterprise risk of such company by (A) the company's ultimate controlling person, (B) any member or combination of members within its insurance holding company system, or (C) its insurance holding company system on a consolidated basis; and

(2) (A) Order such company to produce such records, books or other information in the possession of the insurance company or its affiliates as are reasonably necessary to [ascertain the financial condition of such insurance company or to] determine compliance with sections 38a-129 to 38a-140, inclusive, as amended by this act. In the event such insurance company fails to comply with such order, the commissioner

**Substitute Senate Bill No. 411**

shall have the power to examine any such affiliate to obtain such information.

(B) The commissioner may order the registered insurance company to produce records, books or other information not in its possession if the company can obtain access to such records, books or other information pursuant to a contractual agreement, a statutory obligation or other method. If the insurance company can not obtain access to such records, books or other information, the company shall provide to the commissioner a detailed explanation of the reason the company can not obtain the requested records, books or other information, and the identity of the holder of such records, books or other information. If the commissioner deems the explanation to be without merit, the delay in producing the requested records, books or other information under this subparagraph shall be grounds for administrative action in accordance with subsection (c) of section 38a-41.

(b) The commissioner may engage the services of attorneys, actuaries, accountants and other experts not otherwise a part of the commissioner's staff, at the registered insurance company's expense, as shall be reasonably necessary to assist in the conduct of the examination under subsection (a) of this section. All persons so engaged shall be under the direction and control of the commissioner and shall act in a purely advisory capacity.

(c) Each registered insurance company producing for examination records, books and papers pursuant to subsection (a) of this section shall be liable for and shall pay the expense of such examination in accordance with sections 38a-14 and 38a-15.