| 1 | | AN | ACT 1 | relating to the insurance regulatory sandbox. |
|----|-------|-------------|--------------|--|
| 2 | Be it | t enac | ted by | the General Assembly of the Commonwealth of Kentucky: |
| 3 | | → S | ection | 1. KRS 304.3-705 is amended to read as follows: |
| 4 | (1) | Exce | ept as | provided in subsection (2) of this section, on or before December 31, |
| 5 | | <u>2030</u> | <u> 2025</u> | 5], a person may apply to the department for admission to the sandbox by |
| 6 | | subr | nitting | g an application in the form prescribed by the commissioner, accompanied |
| 7 | | by th | ne foll | owing: |
| 8 | | (a) | A fil | ing fee of seven hundred fifty dollars (\$750); |
| 9 | | (b) | A de | etailed description of the innovation, which shall include: |
| 10 | | | 1. | An explanation of how the innovation will: |
| 11 | | | | a. Add value to customers and serve the public interest; |
| 12 | | | | b. Be economically viable for the applicant; |
| 13 | | | | c. Provide suitable consumer protection; and |
| 14 | | | | d. Not pose an unreasonable risk of consumer harm; |
| 15 | | | 2. | A detailed description of the statutory and regulatory issues that may |
| 16 | | | | prevent the innovation from being currently utilized, issued, sold, |
| 17 | | | | solicited, distributed, or advertised in the market; |
| 18 | | | 3. | A description of how the innovation functions and the manner in which |
| 19 | | | | it will be offered or provided; |
| 20 | | | 4. | If the innovation involves the use of software, hardware, or other |
| 21 | | | | technology developed for the purpose of implementing or operating it, a |
| 22 | | | | technical white paper setting forth a description of the operation and |
| 23 | | | | general content of technology to be utilized, including: |
| 24 | | | | a. The problem addressed by that technology; and |
| 25 | | | | b. The interaction between that technology and its users; |
| 26 | | | 5. | If the innovation involves the issuance of a policy of insurance, a |
| 27 | | | | statement that either: |

| 1 | | a. If the applicant will be the insurer on the policy, that the applicant |
|----|-----|---|
| 2 | | holds a valid certificate of authority and is authorized to issue the |
| 3 | | insurance coverage in question; or |
| 4 | | b. If some other person will be the insurer on the policy, that the |
| 5 | | other person holds a valid certificate of authority and is authorized |
| 6 | | to issue the insurance coverage in question; and |
| 7 | | 6. A statement by an officer of the applicant certifying that no product, |
| 8 | | process, method, or procedure substantially similar to the innovation has |
| 9 | | been used, sold, licensed, or otherwise made available in this |
| 10 | | Commonwealth before the effective filing date of the application; |
| 11 | (c) | The name, contact information, and bar number of the applicant's insurance |
| 12 | | regulatory counsel, which shall be a person with experience providing |
| 13 | | insurance regulatory compliance advice; |
| 14 | (d) | A detailed description of the specific conduct that the applicant proposes |
| 15 | | should be permitted by the limited no-action letter; |
| 16 | (e) | Proposed terms and conditions to govern the applicant's beta test, which shall |
| 17 | | include: |
| 18 | | 1. Citation to the provisions of Kentucky law that should be excepted in |
| 19 | | the notice of acceptance issued under KRS 304.3-710(6); and |
| 20 | | 2. Any request for an extension of the time period for a beta test under |
| 21 | | KRS 304.3-720(1) and the grounds for the request; |
| 22 | (f) | Proposed metrics by which the department may reasonably test the |
| 23 | | innovation's utility during the beta test; |
| 24 | (g) | Disclosure of all: |
| 25 | | 1. Persons who are directors and executive officers of the applicant; |
| 26 | | 2. General partners of the applicant if the applicant is a limited partnership; |
| 27 | | 3. Members of the applicant if the applicant is a limited liability applicant; |

| 1 | | | 4. Persons who are beneficial owners of ten percent (10%) or more of the | |
|----|-----|-----|---|--|
| 2 | | | voting securities of the applicant; | |
| 3 | | | 5. Other persons with direct or indirect power to direct the management | |
| 4 | | | and policies of the applicant by contract, other than a commercial | |
| 5 | | | contract for goods or nonmanagement services; and | |
| 6 | | | 6. Conflicts of interest with respect to any person listed in this paragraph | |
| 7 | | | and the department; | |
| 8 | | (h) | A statement that the applicant has funds of at least twenty-five thousand | |
| 9 | | | dollars (\$25,000) available to guarantee its financial stability through one (1) | |
| 10 | | | or a combination of any of the following: | |
| 11 | | | 1. A contractual liability insurance policy; | |
| 12 | | | 2. A surety bond issued by an authorized surety; | |
| 13 | | | 3. Securities of the type eligible for deposit by authorized insurers in this | |
| 14 | | | Commonwealth; | |
| 15 | | | 4. Evidence that the applicant has established an account payable to the | |
| 16 | | | commissioner in a federally insured financial institution in this | |
| 17 | | | Commonwealth and has deposited money of the United States in an | |
| 18 | | | amount equal to the amount required by this paragraph that is not | |
| 19 | | | available for withdrawal, except by direct order of the commissioner; | |
| 20 | | | 5. A letter of credit issued by a qualified United States financial institution | |
| 21 | | | as defined in KRS 304.9-700; or | |
| 22 | | | 6. Another form of security authorized by the commissioner; and | |
| 23 | | (i) | A statement confirming that the applicant is not seeking authorization for, nor | |
| 24 | | | shall it engage in, any conduct that would render the applicant unauthorized to | |
| 25 | | | make an application under subsection (2) of this section. | |
| 26 | (2) | (a) | The following persons shall not be authorized to make an application to the | |
| 27 | | | department for admission to the sandbox: | |

| 1 | | | 1. | Any person seeking to sell or license an insurance innovation directly to |
|----|-----|------|--------|--|
| 2 | | | | any federal, state, or local government entity, agency, or instrumentality |
| 3 | | | | as the insured person or end user of the innovation; |
| 4 | | | 2. | Any person seeking to sell, license, or use an insurance innovation that |
| 5 | | | | is not in compliance with subsection (1)(b)5. of this section; |
| 6 | | | 3. | Any person seeking to make an application that would result in the |
| 7 | | | | person having more than five (5) active beta tests ongoing within the |
| 8 | | | | Commonwealth at any one (1) time; and |
| 9 | | | 4. | Any person seeking a limited or extended no-action letter or exemption |
| 10 | | | | from any administrative regulation or statute concerning: |
| 11 | | | | a. Assets, deposits, investments, capital, surplus, or other solvency |
| 12 | | | | requirements applicable to insurers; |
| 13 | | | | b. Required participation in any assigned risk plan, residual market, |
| 14 | | | | or guaranty fund; |
| 15 | | | | c. Any licensing or certificate of authority requirements; or |
| 16 | | | | d. The application of any taxes or fees. |
| 17 | | (b) | For | he purposes of this subsection, "federal, state, or local government entity, |
| 18 | | | ager | cy, or instrumentality" includes any county, city, municipal corporation, |
| 19 | | | urba | n-county government, charter county government, consolidated local |
| 20 | | | gove | rnment, unified local government, special district, special purpose |
| 21 | | | gove | rnmental entity, public school district, or public institution of education. |
| 22 | (3) | Not | withst | anding any other provision of this chapter, a person regulated under this |
| 23 | | chap | oter m | ay participate in the regulatory sandbox described in KRS 15.268 if the |
| 24 | | pers | on is: | |
| 25 | | (a) | Not | authorized to make an application under this section; or |
| 26 | | (b) | Seel | ing regulatory relief that is not available under KRS 304.3-700 to 304.3- |
| 27 | | | 735. | |

| \rightarrow Section 2. | KRS 304.3-735 is amended to r | ead as follows: |
|--------------------------|-------------------------------|-----------------|
| | | |

- 2 (1) One hundred twenty days (120) days prior to the start of the [2021, 2022, 2023,
- 3 2024, and 2025] 2026, 2027, 2028, 2029, and 2030 regular sessions of the General
- 4 Assembly, the commissioner shall submit a written report to the Interim Joint
- 5 Committee on Banking and Insurance that meets the requirements of subsection (2)
- of this section. Thereafter, the commissioner shall submit the report annually, upon
- 7 request.
- 8 (2) The report shall include the following:
- 9 (a) The number of:
- 1. Applications filed and accepted;
- 11 2. Beta tests conducted; and
- 12 3. Extended letters issued;
- 13 (b) A description of the innovations tested;
- 14 (c) The length of each beta test;
- 15 (d) The results of each beta test;
- 16 (e) A description of each safe harbor created under KRS 304.3-725;
- 17 (f) The number and types of orders or other actions taken by the commissioner or
- any other interested party under KRS 304.3-700 to 304.3-725;
- 19 (g) Identification of any statutory barriers for consideration of amendment by the
- 20 General Assembly following successful beta tests and the issuance of
- 21 extended letters; and
- 22 (h) Any other information or recommendations deemed relevant by the
- commissioner.
- 24 (3) The commissioner shall also provide the Interim Joint Committee on Banking and
- Insurance a detailed briefing, upon request, to discuss and explain any report
- submitted under this section.