

HOUSE BILL 720: Insurance Guaranty Association Act Revisions.

2025-2026 General Assembly

Committee:House Rules, Calendar, and Operations of the Date:April 29, 2025HouseHousePrepared by:Amy DardenIntroduced by:Reps. Humphrey, Setzer, BalkcomPrepared by:Amy DardenAnalysis of:First EditionStaff Attorney

OVERVIEW: House Bill 720 would revise the Insurance Guaranty Association Act by:

- > Clarifying the definition of a "covered claim."
- Defining cybersecurity insurance and setting a limit of \$500,000 for any claim obligation of the Association.
- > Allowing the Association to investigate claims brought against it by hiring legal counsel and paying claims in any order it deems reasonable.
- > Providing the Association the right to review and contest settlements, releases, compromises, waivers, and judgments to which an insolvent insurer or its insured were parties prior to an entry of an order of liquidation.

CURRENT LAW: The North Carolina Insurance Guaranty Association (Association) is a nonprofit, unincorporated legal entity. The Association aims to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment, and to avoid financial loss to claimants or policyholders because of the insolvency of an insurer, to assist in the detection and prevention of insurer insolvencies, and to provide an association to assess the cost of that protection among insurers.

All insurers defined as member insurers in G.S. 58-48-20(6) must be and remain members of the Association as a condition of their authority to transact insurance in this State.

BILL ANALYSIS:

<u>Section 1</u> of House Bill 720 would provide that an exemption from the Insurance Guaranty Association Act for insurance of warranties or service contracts does not apply to coverages set forth in a cybersecurity insurance policy.

<u>Section 2</u> would clarify the definition of "covered claim" to include claim obligations that arose through the issuance of a policy by a member insurer, which are later transferred or allocated to a member or non-member insurer if:

- The original member insurer has no remaining obligations on the policy after the transfer.
- A final order of liquidation with a finding of insolvency has been entered against the insurer who assumed the member's coverage obligations.
- The claim would have been a covered claim if it had remained with the original member insurer.

Kara McCraw Director



Legislative Analysis Division 919-733-2578

This bill analysis was prepared by the nonpartisan legislative staff for the use of legislators in their deliberations and does not constitute an official statement of legislative intent.

House Bill 720

Page 2

• For claims assumed by a non-member insurer, the transaction received prior regulatory and judicial approval.

"Cybersecurity insurance" is defined as including first and third-party coverage, in policy or endorsement, by a member insurer for losses and loss mitigation arising out of or relating to data privacy breaches, unauthorized information network security intrusions, computer viruses, ransomware, cyber extortion, identity theft, and similar exposures.

<u>Section 3</u> of the bill would limit the Association liability on cybersecurity insurance coverage claims arising out of a single insured event to \$500,000. The bill would allow the Association to hire legal counsel and pay claims in any order it deems reasonable when dealing with claims brought against it. The Association would also have a right to review and contest settlements, releases, compromises, waivers, and judgments where insolvent insurers or its insureds were parties prior to an entry of the order of liquidation.

<u>Section 4</u> would add language to include the aggregate net worth of the insured and all of its subsidiaries and affiliates when determining whether the insured's net worth exceeds the amount required to give the Association the right to recover claims paid and expenses incurred in connection with any claim against the person.

<u>Section 5</u> would delete language reopening default judgments.

EFFECTIVE DATE: The bill would become effective when it becomes law.