HOUSE
RESEARCH
ORGANIZATION bill analysis 4/15/97

HB 1975
Smithee

SUBJECT: Streamlining the schedule of regular financial examinations of insurers

COMMITTEE: Insurance — favorable, without amendment

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise

0 nays

WITNESSES: None

BACKGROUND: The Insurance Code requires the Texas Department of Insurance (TDI) to conduct periodic financial examinations of all insurance companies licensed do business in Texas to ensure that the companies are financially stable. In addition to these regular examinations of all companies, TDI conducts financial examinations of companies if a concern about a company's financial situation arises.

Under the code, most companies are examined every three years. This schedule can be extended for up to five years for very stable companies. However, at least 13 statutes mandate different examination schedules for various types of insurance carriers.

DIGEST: HB 1975 would amend various sections of the Insurance Code to require that all insurance companies undergo a financial examination every three years. TDI could extend the examination schedule for up to five years, depending on the financial stability of the company.

HB 1975 would apply only to examinations conducted on or after September 1, 1997, the bill's effective date.

SUPPORTERS SAY: HB 1975 would help TDI streamline the financial examination process and save insurance companies a great deal of time and money. HB 1975 would affect only regularly scheduled financial examinations; TDI would still have the authority to conduct financial examinations when a concern arises about a particular company's financial practices or stability. The bill would free up TDI's staff resources to allow more frequent examinations of financially troubled companies.

Under current law, financially stable holding companies that comprise various insurance companies must undergo a financial examination every year or two, simply because various statutes require more frequent examinations. The cost of frequent examinations is paid by insurers and ultimately passed on to consumers in the form of higher premiums.

Most insurers must undergo an annual CPA audit and provide TDI with the audit results as well as actuarial opinions of the company's financial stability. These audits, combined with regular monitoring by TDI analysts and regularly scheduled financial examinations, provide sufficient protection for consumers. Streamlining the regular financial examination process would not affect TDI's ability to monitor the financial stability of insurance companies.

OPPONENTS SAY: No apparent opposition.