HOUSE
RESEARCH
ORGANIZATION bill analysis | 4/15/97 | HB 1976
Smithee

SUBJECT:	Financial solvency requirements for certain property and casualty 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:	Most insurance companies are subject to risk-based capital (RBC) or solvency requirements mandated by the Texas Department of Insurance (TDI). Risk-based capital is an amount of money an insurer is required to have to stay solvent should losses occur. Solvency requirements are based on such factors as a company's nature and the types of risks to which it is exposed. Currently, non-stock property and casualty insurers are exempt from Texas' RBC requirements.
DIGEST:	HB 1976 would limit the exemption for risk-based capital requirements to certain property and casualty insurers who are legally domiciled in Texas and who *only* write business in Texas and are not required by law to have capital stock. Other insurers who may write business in Texas but also write business in other states would be subject to TDI's risk-based capital requirements.. HB 1976 would take effect September 1, 1997, and apply to the minimum free surplus or guaranty fund and free surplus of an insurer on or after January 1, 1998.
SUPPORTERS SAY:	HB 1976 would make a needed change to ensure a greater level of solvency to protect consumers and policy holders and to meet insurance department accreditation standards. It would implement a recommendation by Insurance Commissioner Elton Bomer in his biennial report to the 75th Legislature.

The principle behind risk-based capital is that companies choosing to assume higher risks should have a higher amount of capital to cushion the effect of any losses. However, insurers are subject to different solvency requirements depending on which chapter of the Insurance Code they are licensed under, even if they are exposed to similar risks. This causes a disparity of solvency requirements among insurers who support similar risks. HB 1976 would simply provide a more level playing field for these insurers.

OPPONENTS SAY: HB 1976 is a good start but would not go far enough. All insurers should have some solvency standard for the protection of consumers.

NOTES: A similar bill, HB 1977 by Smithee, relating to risk limitations for certain insurers, has been reported favorably by the House Insurance Committee and the committee report sent to the Calendars Committee.