

SUBJECT: Reducing public notice requirements for changes in insurer capital

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 insurers to maintain a certain amount of capital stock to protect its policyholders should the company develop financial problems. Capital stock is the difference between the company's financial assets and its liabilities. If an insurer plans to increase or decrease its capital stock, the company is required to advertise this in a general circulation newspaper for four consecutive weeks.

DIGEST: HB 2373 would amend the Insurance Code to reduce the period an insurance company must advertise its intent to increase or decrease capital stock to five consecutive days. The bill would apply to companies increasing or decreasing their capital stock after September 1, 1997.

SUPPORTERS SAY: HB 2373 would make it easier for companies to comply with a notice requirement that is cumbersome, unnecessary and outdated. The current notification requirement was enacted in 1911 and no longer serves any useful purpose. The Texas Department of Insurance reviews capital stock increases or decreases to ensure that the interests of consumers and policyholders are protected. A majority of the company's shareholders must also agree to such a move.

HB 2, a major insurance reform law passed in 1991, required smaller insurance companies to increase their capital stock over a ten-year period. As these companies increase their capital stock to comply with the law, the need for this outdated notice requirement has increasingly come into question. The five-day notice requirement is sufficient to inform any policyholders that may want this information.

**OPPONENTS
SAY:**

The capital stock notice requirement is unnecessary and should be eliminated altogether. The Texas Department of Insurance conducts a thorough review when a company increases its capital stock, so the interests of policyholders are well protected. In the current insurance regulatory climate, there is no need for such a notice requirement.