

- SUBJECT:** Insurance company allowable investments
- COMMITTEE:** Insurance — committee substitute recommended
- VOTE:** 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise
- 0 nays
- WITNESSES:** For — Will D. Davis, Peter Tuters, American General Corporation
- Against — None
- DIGEST:** CSHB 909 would make a number of changes to authorized insurer investments, including:
- Adding investment pools to the list of authorized investments for insurance companies. The bill specifies the type, length, percentage and conditions of the investment pool, including that short-term pools would have to be top rated by the Securities Valuation Office and mature in less than three years. Investments of other pools would be limited to those that an insurer could acquire directly;
  - Allowing equity investments in any business that is a limited liability partnership, limited partnership, limited partnership interest in a joint venture, or trust that is organized under the laws of the United States, another state, Canada or any state, district, province or territory of Canada;
  - Requiring companies in whose equity stock Texas insurance companies invest to be subject to an annual audit by an independent certified public accountant or some other evaluation allowed by the insurance commissioner;
  - Allowing an insurer to invest up to 20 percent of its capital and surplus in preferred stock, provided the stock is rated by the Securities Valuation Office;

- Increasing from five percent to 20 percent the amount of foreign assets an insurance company may have;
- Allowing an insurer to engage in securities lending and repurchases to business entities. The aggregate amount of securities loaned, sold to, or purchased from any one business entity could not exceed five percent of the insurers' assets. The total amount of all of an insurers' securities lending could not exceed 40 percent of its assets;
- Allowing insurers to use certain derivatives for risk control purposes. Upon request of the commissioner, the insurer would have to be able to demonstrate the intended hedging characteristics and the ongoing effectiveness of the derivative transaction. Ten days before entering into a derivative transaction, the insurer would be required to notify the commissioner in writing that its board of directors has adopted an investment plans that authorizes hedging transactions.

In addition, the bill would specify that any investment, once qualified, remains a qualified investment.

The investments authorized by law would not apply to assets acquired because of a reinsurance, merger, or consolidation if the assets were legal assets for the ceding, merged or consolidated company.

CSHB 909 would specify that the qualification or disqualification of an investment under one section of the authorized investments allowed would not prevent its qualification in whole or in part under another section, and an investment allowed by more than one section could be held under whatever section the insurance company desired. It would allow an insurance company to transfer an asset to another section of the authorized investments allowed whether it originally qualified in that section or not.

CSHB 909 would apply primarily to life, accident and health insurers. The portion of the bill allowing foreign investments would also affect property and casualty insurers.

CSHB 909 would take effect September 1, 1997.

**SUPPORTERS SAY:** CSHB 909 would modernize Texas' insurance investment laws and allow insurers to take advantage of new financial instruments to maximize their financial capital. Current investment laws, adopted in 1983, have served Texas insurers and policyholders well but need to be updated to reflect current investment practices. CSHB 909 contains sufficient protections to safeguard the assets of the insurance companies and ensure that policyholder interests are protected.

CSHB 909 closely tracks a model insurance investment act adopted by the National Association of Insurance Commissioners. The bill was developed in cooperation with Texas Department of Insurance staff, who have been careful to ensure that insurers would not be allowed to make imprudent investments that would threaten insurer solvency.

**OPPONENTS SAY:** No apparent opposition.

**NOTES:** The committee substitute would prevent insurers from refinancing, restructuring, or otherwise modifying their investments to circumvent the investment limitations in the bill and retained existing sections of the Insurance Code regarding repurchase agreements and risk-limiting provisions.

During the 1995 regular session, a similar bill, SB 1544 by Henderson, passed the Senate, was reported favorably by the House Insurance Committee, but was placed on the calendar too late to be considered by the House.