

SUBJECT: Investing rules for property and casualty insurers

COMMITTEE: Insurance — committee substitute recommended

VOTE: 5 ayes — Smithee, G. Lewis, Olivo, Seaman, Thompson
0 nays
4 absent — Eiland, Burnam, J. Moreno, Wise

WITNESSES: For — Will Davis, USAA
Against — None

BACKGROUND: The 75th Legislature enacted HB 909 by Dutton, which modified Insurance Code sections on investments by life, health, and accident insurers.

Insurance Code, art. 2.10 applies to property and casualty insurance companies and their investments in excess of the required \$1 million capital and \$1 million surplus.

DIGEST: CSHB 3042 would amend the rules applicable to investments by property and casualty insurance companies.

Under the bill, the board of directors of each insurer would have to adopt and review annually an investment plan that would balance the needs of security and growth in the insurer's investments. The insurance commissioner could review the plan on request, but the plan would be kept confidential and not subject to public disclosure. Insurers would have to keep records on each investment transaction and demonstrate to the Texas Department of Insurance (TDI) that the investments were within the law.

CSHB 3042 would add several types of deposits in banks, savings and loans, and other depository institutions to the investments that an insurer may make with funds in excess of minimum capital and minimum surplus. The bill would add restrictions on depositing too much in any one bank. It also would authorize investments in the form of evidence of indebtedness, such as liens or coupons on installment loans, as well as certain investments with solvent

partnerships. An insurer could not invest more than 5 percent of its total assets in unsecured investments from a single issuer, other than in certain mutual funds or bank deposits.

The bill would specify that any investment, once qualified, would remain 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. The insurance commissioner could allow an insurer to make an investment beyond the statutory limits if the insurer justified the need for the exception in a hearing.

CSHB 3042 would allow an insurer to engage in securities lending and various types of repurchases with business entities. The aggregate amount of securities lent to, sold to, or purchased from any one business entity could not exceed 5 percent of the insurer's assets. The total amount of an insurer's securities lending could not exceed 40 percent of its assets.

Insurers whose capital and surplus exceeded \$10 million could use certain risk-limiting transactions, or investments intended to limit the risk of loss involved in other investments. Insurers would have to develop investment plans for the use of these transactions, and the plans would have to be available to the insurance commissioner. Certain transactions called hedging transactions would require 10 days notice to the commissioner before the initial transaction. Insurers with capital and surplus between \$2 million and \$10 million would have to receive approval from the commissioner before using these transactions. Insurers with capital and surplus below \$2 million could not use these transactions.

CSHB 3042 would take effect September 1, 1999.

**SUPPORTERS
SAY:**

CSHB 3042 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 they need to be updated to reflect current investment practices. CSHB 3042 contains sufficient protections to safeguard insurance companies' assets while protecting policyholders' interests.

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CSHB 3042 closely tracks a model insurance investment act adopted by the National Association of Insurance Commissioners. The bill was developed in cooperation with TDI staff, who have been careful to ensure that insurers would not be allowed to make imprudent investments that would threaten their solvency.

The changes that HB 909 made to investment rules for life, accident, and health insurers last session have been successful and should be applied to property and casualty insurers.

OPPONENTS
SAY:

No apparent opposition.

NOTES:

The committee substitute made nonsubstantive and conforming changes to the original bill.