SUBJECT: Investments using funds in reinsurance trusts

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Frullo, Muñoz, Jr., G. Bonnen, Guerra, Meyer, Paul, Sheets, Vo, Workman

0 nays

WITNESSES: For — Diane Greene, GSFS Group; (*Registered, but did not testify*: Thomas Ratliff, American Insurance Association; Joe Woods, Property Casualty Insurers Association of America)

Against — None

On — Jamie Walker, Texas Department of Insurance

BACKGROUND: Insurance Code, secs. 492.051 and 493.051 regarding reinsurance for property, casualty, life, health, and accident insurers each allow an insurer operating in Texas to reinsure in any solvent assuming insurer any risk or part of a risk that both insurers are authorized by law to assume.

When an insurer domiciled in Texas places reinsurance with a company that is not authorized to do business in Texas and wants to take credit for such reinsurance in its financial statements, Texas statute restricts the type of assets in which insurers or reinsurers may invest using funds held as security for the reinsurance contract. Under Insurance Code, secs. 492.104 and 493.104, funds held in trust for the ceding insurer as security for the payment of obligations under a reinsurance contract with a reinsurance company not authorized in Texas may be in the form of:

- cash;
- securities that qualify as admitted assets;
- securities that are readily marketable over a national exchange;
- securities that have a maturity date of not later than one year;

- securities listed by the National Association of Insurance Commissioners' Securities Valuation Office;
- certain letters of credit that meet the required standards; and
- another form of security acceptable to the insurance commissioner.

DIGEST: CSHB 1344 would remove requirements that funds held as security for a reinsurance contract with a reinsurance company not authorized in Texas be invested in securities that are readily marketable over a national exchange and have a maturity date of not later than one year, if the funds are not in the form of cash.

The bill would apply to funds held as security for the payment of reinsurance obligations for life, health, accident, property, and casualty insurers.

The bill would retain requirements that the funds held as security be invested only in securities that are listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualify as admitted assets.

The bill would take effect September 1, 2015, and would apply to funds held as security on or after that date.

SUPPORTERS SAY: CSHB 1344 would increase the types of investments allowed when funds are held as security for reinsurance contracts. In 48 other states, reinsurance companies that hold funds in trust as security for the payment of reinsurance obligations have more opportunities to invest their funds, add to the trust, and provide income to pay claims. Texas insurers are competitively disadvantaged from finding reinsurers because of existing restrictions on reinsurance trust fund investments. The bill would put Texas-domiciled insurers on the same level as insurers in most other states.

Capital support from reinsurance also allows insurers, especially small domestic insurers, to write more business. The bill would increase availability of reinsurance to Texas insurers and allow small insurers to write more business.

The bill would retain important safeguards in state code by still requiring reinsurance trust fund investments in securities to be limited to those that qualify as an admitted asset and those securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners, the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from all U.S. states, the District of Columbia, and five territories. Requiring securities to be limited to these categories would ensure that funds were invested responsibly, would ensure liquidity, and would ensure protection for both consumers and insurance companies.

OPPONENTS SAY:

By reducing restrictions on how funds held in trust for reinsurance contracts can be invested, the bill could reduce the liquidity of reinsurance trust funds and their availability to pay claims.