

HOUSE RESEARCH

Bill Summary

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Overview

This bill involves township mutual insurance companies. These companies are owned and governed by their policyholders and sell fire and other property insurance in primarily rural areas. State law exempts them from most of the state's general insurance laws. Township mutuals have their own chapter of statutes, and this bill amends the statute regulating what they may invest their assets in. This bill would permit them to invest in overnight repurchase agreements, generally known as "repos."

- 1 Deposit of funds; investment; limitations.** Would permit township mutual insurance companies to invest in overnight repurchase agreements, known as "repos." These are in effect overnight loans to banks. Often these are set up as "sweep" arrangements, in which the bank automatically "sweeps" all money in a checking account at the end of each banking day into repos, so that the money can earn "interest" between then and the start of the next banking day. Technically, a repo is an agreement for the sale of securities (typically U. S. government bonds), with a repurchase at a guaranteed (slightly higher) price the following day. In this case, the township mutual would buy the securities from its regular bank (or other financial institution), and the bank would agree to buy them back at a specified price the next day. This section requires that the bank's obligation to repurchase be collateralized by the bank's pledge of securities in which the township mutual is permitted by law to invest. (Presumably, the securities used as collateral would be the same as those that are the subject of the repurchase agreement.) Those securities must have a market value of at least 105 percent of the amount the township mutual invests in the repo.