HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1473
Version: First engrossment

DATE: April 27, 2011

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Subject: Miscellaneous technical changes in financial regulation of insurance companies

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Overview

This technical bill from the Department of Commerce contains a variety of technical changes in state regulation of financial solvency of insurance companies.

1 **Negative trend.** Removes language that limits a definition of "negative trend" to life and health insurance, thereby making it available for use in connection with property/casualty insurance. This term is not used in the statutes to which this definition applies, but it is used in the annual statement filing instructions that are referenced in those statutes. "Negative trend" refers to a situation in which an insurance company's financial solvency has been deteriorating over time.

2 **Member insurer.** Eliminates a reference to farmers mutual fire insurance companies. That type of company no longer exists in this state. The legislature prohibited new companies of that type in 1967, and the last existing one has gone out of business. This type of insurance is still available from township mutual fire insurance companies.

3 **Reserve valuation of life insurance and endowment benefits; modified premiums.** For a certain type of universal life insurance policy, removes a time limit on the applicability of an accounting manual required by the National Association of Insurance Commissioners ("NAIC").

4 **Lending of securities.** Makes a conforming change to remove from current law a reference to a statute that is repealed in section 7 of this bill. This section deals with a life insurance company that lends investment securities it owns to a securities broker-dealer or to a bank. Current law limits those loans to 40 percent of the insurance company's "admitted assets" (assets that the insurance company is allowed to count toward meeting its financial solvency requirements), but does not count against that 40 percent limit loans of securities owned by the insurance company but held in a separate account in connection with a pension fund. This section eliminates the exemption for assets held in connection with a pension fund. In other words, it makes loans of those securities count toward the 40 percent limit.

5 **Statutory premium reserves.** Effective January 1, 2010, reduces the statutory minimum premium reserve required for domestic title insurance companies from 8 percent to 6.5 percent of the risk borne by the title insurance company.

6 **Real and personal property financing; prohibited acts by businesses.** Eliminates an obsolete reference to farmers mutual fire insurance companies. See summary of section 2 for explanation.

7 **Repealer.** (a) Repeals two laws dealing with life insurance companies creating separate accounts for funds held for pension or other retirement plans, or creating funding agreements in which the life insurance company agrees to fund various activities or obligations. Also repeals all laws relating to farmers mutual fire insurance companies. (See summary of section 2 for information on that.)

(b) Repeals a paragraph of a Department of Commerce rule that regulates bank accounting procedures involving money the bank spent to improve real estate it acquired through foreclosure or similar situation. Usually this is done to make the property more appealing to prospective buyers, resulting in a quicker sale and/or a higher sale price. In bank accounting, real estate the bank acquired through foreclosure or similar situation is called "other real estate owned" and abbreviated "REO." This rule applies only to state-chartered banks and not to national banks.