

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5244-01
Bill No.: HB 1926
Subject: Banks and Financial Institutions; Insurance - General; Insurance Dept.; Securities
Type: Original
Date: March 28, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **County Employees' Retirement System, Department of Economic Development, Department of Insurance, and Missouri State Employees Retirement System** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Joint Committee on Public Employee Retirement** state the legislation would not create a "substantial proposed change" in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement is not required.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal to the SOS for administrative rules is less than \$1,500. The SOS does not expect additional funding would be required to meet these costs. However, the SOS recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Public School Retirement System** did not respond to our request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal changes the laws regarding insurance company investments.

POLICE AND FIREMEN'S RETIREMENT SYSTEMS

Currently, the board of trustees of police and firemen's pension systems are not subject to investment limitations established in Section 376.305, RSMo. The proposal makes these systems subject to the limitations.

INVESTMENT PRACTICES OF DOMESTIC INSURERS

The proposal: (1) Exempts insurers organized under Chapter 376 from several requirements in Chapter 375 including that: (a) Notification be given on interest due on an insurance policy loan; (b) Insurance companies not deal or trade in goods, wares, merchandise, commodities, or certain real estate purchases, sales, or trades; (c) No officer, stockholder, agent, or employee use company funds for private profit or gain; (d) Beneficial owners of a company selling any equity securities of the company must own the security sold and deliver the security sold as required; (e) Domestic insurers invest in stocks or shares having at least the second highest designation or quality rating conferred by the Securities Valuation Office of the National Association of Insurance Commissioners; (f) Investments in foreign governments or corporations are permitted as long as the investments are allowed in United States companies; and (g) Insurance companies follow the provisions of Sections 375.1070 - 375.1075, Investments in Medium and Lower Quality Obligations Law; (2) Allows insurers organized under Chapter 376 to engage in derivative transactions through an investment subsidiary; (3) Establishes Sections 376.291 - 376.307 which applies to investments and investment practices of domestic insurers organized under the provisions of Chapter 376. Terms relative to these sections are defined; (4) Requires

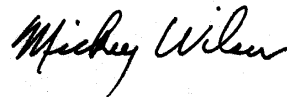
DESCRIPTION (continued)

an insurer's board of directors to adopt a plan for acquiring investments and for engaging in investment practices appropriate for the business conducted by the insurer, its liquidity needs, and its capital and surplus needs. Prohibited investments are also specified; (5) Prohibits insurers, without prior approval of the Director of the Department of Insurance, from: (a) Making a loan or investment in an officer of the insurer or a person in which the officer has any financial interest; (b) Making a guarantee for the benefit of or in favor of an officer of the insurer or a person in which the officer has a financial interest; and (c) Entering into an agreement for the purchase or sale of property from or to an officer of the insurer or a person in which the officer has any financial interest; (6) Allows an insurer, without prior approval of the director, to: (a) Make policy loans in accordance with the terms of the contract; (b) Advance reasonable expenses expected in the course of business to directors or officers; (c) Make loans secured by the principal residence of an existing officer in connection with the officer's relocation at the insurer's request; and (d) Make loans or advances to officers or directors which comply with state and federal law pertaining to loans made to a regulated noninsurance subsidiary or affiliate of the insurer in the normal course of business; (7) Requires investments to be valued based on published accounting and valuation standards of the National Association of Insurance Commissioners; (8) Prohibits insurers from investing more than 3% of its admitted assets in investments issued by a single person. This limitation will not apply to amounts insured by a single financial guaranty insurer having the highest generic rating issued by a nationally recognized statistical rating organization or to asset-backed securities. Requirements are established for medium-grade, low-grade, and Canadian investments; (9) Allows an insurer, subject to certain limitations, to acquire rated credit instruments issued, assumed, guaranteed, or issued by the United States, Canada, government-sponsored enterprises of the United States or Canada, a government or class one money market mutual fund, a class one bond mutual fund, or general obligation instruments of the state; (10) Allows an insurer to invest in tangible personal property if the resulting ownership of the property returns to the insurer the cost of the investment plus a return deemed adequate by the insurer. Investments in tangible property cannot exceed 2% of admitted assets or .5% on any single item; (11) Allows insurers to acquire obligations secured by mortgages on real estate situated within a domestic jurisdiction. A mortgage loan secured by other than a first lien cannot be acquired unless the insurer is the holder of the first lien and it meets certain requirements. The real estate must be income producing or intended for improvement or development to produce income; (12) Allows insurers to enter into securities lending, repurchase, reverse repurchase, and dollar roll transactions subject to the board of directors adopting a written plan detailing how cash received will be invested or used, operational procedures used to manage investments risk, and the extent an insurer may engage in these transactions; and (13) Establishes conditions and requirements for insurers to invest in foreign markets.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development -
 Division of Credit Unions
 Division of Finance
Department of Insurance
Office of Secretary of State
Missouri State Employees' Retirement System
Joint Committee on Public Employee Retirement
County Employees' Retirement System



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Director
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