SCS SB 66 -- INSURANCE COMPANY INVESTMENTS

SPONSOR: Rupp (Yates)

COMMITTEE ACTION: Voted "do pass" by the Committee on Insurance Policy by a vote of 10 to 0.

This substitute changes the laws regarding insurance company investments. The substitute:

(1) Exempts insurers organized under Chapter 376, RSMo, from several requirements in Chapter 375 including the following:

(a) Insurance companies cannot deal or trade in goods, wares, merchandise, commodities, or certain real estate purchases, sales, or trades;

(b) Domestic insurers must 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;

(c) Investments in foreign governments or corporations are permitted if the investments are allowed in United States companies; and

(d) Insurance companies must 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 provisions which apply to investments and investment practices of domestic insurers organized under Chapter 376. Terms relative to these provisions are defined;

(4) Requires 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, Financial Institutions, and Professional Registration from:

(a) Making a loan to or investing 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 department 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 the 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 laws 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 or 5% in investments in the voting securities of an institution. 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 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.

FISCAL NOTE: No impact on state funds in FY 2008, FY 2009, and FY 2010.

PROPONENTS: Supporters say that the bill will modernize the investment laws regarding life insurance companies. This is necessary to improve the competitive position of Missouri life insurance companies and is long overdue. This is based on the Illinois version of the National Association of Insurance Commissioners (NAIC) Model Investment Law.

Testifying for the bill were Senator Rupp; and Reinsurance Group of America.

OPPONENTS: There was no opposition voiced to the committee.