SENATE BILL No. 203

Introduced by Senator Lewis

January 27, 1997

An act to amend Sections 1241.1 and 10489.6 of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 203, as introduced, Lewis. Insurers: financial status.

(1) Under existing law, an insurer may invest in or otherwise acquire or loan upon securities and investments in a foreign country that are substantially of the same kinds, classes, and investment grades as those eligible for investment under the Insurance Code, subject to certain limitations. A domestic insurer with admitted assets in excess of $500,000,000 may acquire any foreign investment if the insurer abides by specified limits. These limitations restrict the percentage of the insurer's admitted assets in investments that receive specified ratings from the National Association of Insurance Commissioners Securities Valuation Office.

This bill would provide that these limitations apply to foreign investments.

(2) Existing law requires every life and disability insurer to maintain reserves sufficient to meet the insurer's obligations under its policies and contracts, valued according to specified methods. For calculation of reserves for annuity and pure endowment contracts, excluding certain group plans, the commissioner's annuity reserve method for benefits is the greatest of the excesses of present values provided for the contracts at the end of each year, as specified, over the present value of any future valuation considerations derived from

future gross consideration, required by the terms of the contract, that become payable prior to the end of the contract year.

This bill would instead provide that the commissioner's annuity reserve method for benefits is the greatest of the excesses of present values provided for the contracts, as specified, over the present value of any future valuation considerations derived from future gross consideration, required by the terms of the contract.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 1241.1 of the Insurance Code is amended to read:

1241.1. In addition to the permission granted by Sections 1240 and 1241:

(a) A domestic insurer with admitted assets in excess of five hundred million dollars ($500,000,000) may acquire, directly or indirectly, any foreign investment, if, after giving effect to that acquisition and subject to the limitations of subdivisions (b) and (c), the foreign investments then held by the domestic insurer would not exceed in the aggregate 12 percent of the total admitted assets of the insurer; provided that~~: (1) no~~ *the insurer's investments do not exceed the following limitations:*

(1) No more than 7.5 percent of~~ its~~ *the insurer's* admitted assets consist of *foreign* investments rated two through six by the National Association of Insurance Commissioners Securities Valuation Office~~; (2) no~~.

(2) No more than 3 percent of~~ its~~ *the insurer's* admitted assets consist of *foreign* investments rated three through six by the National Association of Insurance Commissioners Securities Valuation Office~~; and (3) no~~.

(3) No more than 1.5 percent of~~ its~~ *the insurer's* admitted assets consist of *foreign* investments rated four through six by the National Association of Insurance Commissioners Securities Valuation Office.

(b) A domestic insurer with admitted assets in excess of five hundred million dollars ($500,000,000) may acquire, directly or indirectly, any foreign investment, if, after giving effect to that acquisition, the investments in entities organized under the laws of a single country, or issued and guaranteed by the sovereign government of a country, then held by the insurer, would not exceed~~: (1)~~ *the following limitations:*

(1) No more than 6 percent of its admitted assets if the jurisdiction is rated one by the National Association of Insurance Commissioners Securities Valuation Office~~; (2)~~.

(2) No more than 3 percent of its admitted assets if the jurisdiction is rated two by the National Association of Insurance Commissioners Securities Valuation Office~~; (3)~~.

(3) No more than 1 percent of its admitted assets if the jurisdiction is rated three by the National Association of Insurance Commissioners Securities Valuation Office~~; (4)~~.

(4) No more than .75 percent of its admitted assets if the jurisdiction is rated four by the National Association of Insurance Commissioners Securities Valuation Office~~; and (5)~~.

(5) No more than .5 percent of its admitted assets if the jurisdiction is rated five or six by the National Association of Insurance Commissioners Securities Valuation Office.

(c) A domestic insurer with admitted assets in excess of five hundred million dollars ($500,000,000) may acquire, directly or indirectly, any foreign investment, if, after giving effect to that acquisition, the investments then held by the insurer from a single issuer, other than a sovereign government, would not exceed~~: (1)~~ *the following limitations:*

(1) No more than 2 percent of its admitted assets if the issuer is rated one by the National Association of Insurance Commissioners Securities Valuation Office~~; (2)~~.

(2) No more than 1 percent of its admitted assets if the issuer is rated two by the National Association of

Insurance Commissioners Securities Valuation Office~~;~~ ~~(3)~~.

(3) No more than .75 percent of its admitted assets if the issuer is rated three by the National Association of Insurance Commissioners Securities Valuation Office~~; and (4)~~.

(4) No more than .5 percent of its admitted assets if the issuer is rated four through six by the National Association of Insurance Commissioners Securities Valuation Office.

(d) A domestic insurer with admitted assets of between one hundred million dollars ($100,000,000) and five hundred million dollars ($500,000,000) may also make the investments in subdivisions (a), (b), and (c), provided that each percentage limitation of admitted assets in those subdivisions shall be multiplied by ~~a factor of: (1)~~ *the following:*

(1) A factor of .833 if admitted assets are less than five hundred million dollars ($500,000,000) but at least four hundred million dollars ($400,000,000)~~; (2)~~.

(2) A factor of .667 if admitted assets are less than four hundred million dollars ($400,000,000) but at least three hundred million dollars ($300,000,000)~~; (3)~~.

(3) A factor of .5 if admitted assets are less than three hundred million dollars ($300,000,000) but at least two hundred million dollars ($200,000,000)~~; or (4)~~.

(4) A factor of .333 if admitted assets are less than two hundred million dollars ($200,000,000) but at least one hundred million dollars ($100,000,000).

(e) For the purpose of Section 1241 and this section, ‘‘admitted assets’’ has the same meaning as in paragraph (3) of subdivision (f) of Section 1196.1.

(f) The statement value of the foreign investments, held by an insurer pursuant to this section, that are denominated in foreign currencies not hedged pursuant to arrangements complying with the requirements of paragraph (4) of subdivision (b) of Section 1194.6, ~~shall~~ *may* not exceed one-third of each respective amount authorized by this section.

(g) Nothing in this section shall restrict or limit investments otherwise authorized by this code, including but not limited to the investments authorized by Sections 1173, 1192.4, and 1194.6.

(h) Investments made pursuant to this section shall be classified as excess funds investments and shall be subject to the provisions of Article 4 (commencing with Section 1190) including, but not limited to, Sections 1195, 1196, 1196.1, 1198, 1200, 1201, and 1202.

(i) The limits imposed by subdivisions (a), (b), and (c) do not apply to a property and casualty insurer that has admitted assets in excess of five hundred million dollars ($500,000,000) and foreign investments that do not exceed 4 percent of its total admitted assets.

SEC. 2. Section 10489.6 of the Insurance Code is amended to read:

10489.6. This section ~~shall apply~~ *applies* to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

Reserves according to the commissioners annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in ~~such~~ *those* contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts ~~at the end of each respective contract year~~, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract~~, that become payable prior to the end of such respective contract year~~. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in ~~such~~ *the* contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of ~~such~~ *the* contracts to determine nonforfeiture values.

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