

Investments of Insurance Companies; SB 306

SB 306 updates statutes applying to investments of insurance companies to allow certain types of equity investments. The bill further specifies that insurance companies are prohibited from investing more than 5.0 percent of the outstanding equity interests of any one business entity and from investing an amount of more than 2.0 percent of the investing company's assets in any one business.

Definitions

In its updates to the investment statutes, the bill replaces the term "corporation" with "business entity" and provides that a "business entity" includes a sole proprietorship, corporation, limited liability company, association, partnership, joint stock company, joint venture, mutual fund, trust, joint tenancy, or other similar form of business organization, whether organized for profit or not for profit.

The bill also replaces the term "common stock" with "equity interest" which includes, among other things, common stock; trust certificates; ownership interest in minerals, oil or gas; or the rights, limited partnership interest, and member interests in limited liability companies.

Investment Provisions

Investments have been subject to a requirement that includes being listed on an exchange and a limitation on the amount of these investments of the lesser of 15.0 percent of the company's admitted assets or its combined capital and surplus. The bill instead allows up to 7.5 percent of the overall 15.0 percent of admitted assets to be invested in equity interests without being subject to other requirements.

The bill expands the permissible investments that could be used as collateral in securing a loan. Specifically, the bill replaces the term "securities" with "asset" in a provision that includes an 80.0 percent loan-to-value requirement. (KSA 40-2a14, KSA 40-2b12)

The bill deletes a limitation on the investment of insurance companies in asset-backed securities that had restricted an investing company's aggregate investment to 20.0 percent of the admitted assets of the company. Under the continuing law, asset-backed securities must, at the time of acquisition, be designated as a "1" or "2" by the National Association of Insurance Commissioners, and the investment in any one issue cannot exceed 2.0 percent of the admitted assets of the investing insurance company. (KSA 40-2a28; KSA 40-2b29)

The bill also removes the application of the leeway clause (KSA 40-2a16; KSA 40-2b13) to investments in certain instruments. An insurance company has been prohibited from putting certain assets (*i.e.*, lower grade debt instruments) in leeway.

The bill also makes technical amendments to update the use of terms and references to investment laws.