

## **BILL ANALYSIS**

Senate Research Center

H.B. 2711  
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Economic Development  
5/13/1999  
Engrossed

### **DIGEST**

Currently, Article 21.39-B, Insurance Code, prohibits the director, member of a committee, or officer, or the clerk of a domestic company, who is charged with the duty of handling or investing its funds, from depositing or investing those funds, except in the corporate name of the insurer. Despite this prohibition, it is a common practice for two or more domestic insurers that operate together under a holding company or under an administrative services agreement to operate a risk pool. Insurers in the risk pool spread the risk they assumed when they agreed to cover a particular group by having the pool or affiliates of the parent insurers reinsure the policies. The funds of the pool are usually deposited into one account. Only after the funds have been deposited are they then allocated to each participant in the pool. This practice may violate the prohibition against depositing funds except in the corporate name of the insurer, even if the funds are not misapplied. H.B. 2711 would set forth restrictions on the deposit and investment of funds of a domestic insurance company.

### **PURPOSE**

As proposed, H.B. 2711 sets forth restrictions on the deposit and investment of funds of a domestic insurance company.

### **RULEMAKING AUTHORITY**

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Sections 1-5, Article 21.39-B, Insurance Code, as follows:

Sec. 1. Prohibits any director, member of committee, or officer, or any clerk of a domestic company, who is charged with the duty of handling or investing its funds from investing such funds, except in a certain manner; or deposit such funds except in the corporate name of such company, or in a pooling account with one or more affiliates, or in accordance with a reinsurance agreement. Makes conforming changes.

Sec. 2. Authorizes only a domestic company and its affiliate, as defined in Article 21.49-1 of this code, to hold funds in a pooling account, if funds of a domestic company are deposited in a pooling account. Requires the accounting and operational records and books of the companies to be adequately detailed to identify specific insurance policies and policyholders with premium funds received by the particular company issuing the insurance. Requires a reinsurance agreement between the domestic company and one or more affiliates to be specifically authorize the deposit of premium funds to the account of the affiliate which is assuming the reinsurance.

Sec. 3 - 5. Makes conforming changes.

SECTION 2. Effective date: September 1, 1999.

SECTION 3. Emergency clause.