

# SENATE AMENDMENTS

2<sup>nd</sup> Printing

By: Hancock

H.B. No. 3161

A BILL TO BE ENTITLED

AN ACT

relating to limited purpose subsidiary life insurance companies.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 841, Insurance Code, is amended by adding Subchapter P to read as follows:

SUBCHAPTER P. LIMITED PURPOSE SUBSIDIARY LIFE INSURANCE COMPANIES

Sec. 841.801. PURPOSE. The purpose of this subchapter is to authorize the establishment of domestic limited purpose subsidiary life insurance companies ("limited purpose company" or "LPS") in order to allow that such limited purpose companies may issue securities and otherwise access financial markets and alternative sources of capital through securitizations and other transactions.

Sec. 841.802. DEFINITIONS. For purposes of this subchapter, the following definitions shall apply:

(1) "Affiliated companies" means:

(A) domestic life insurance companies that are directly or indirectly wholly owned subsidiaries of the same holding company; or

(B) controlled persons.

(2) "Ceding insurer" means either a domestic life insurance company that is the parent of the limited purpose subsidiary or an affiliated company of a limited purpose subsidiary and that cedes risk to the LPS pursuant to a reinsurance contract.

(3) "Commissioner" means the insurance commissioner.

1           (4) "Controlled person" means a person organized or  
2 authorized to do business under the laws of this state who is  
3 controlled directly or indirectly by a holding company.

4           (5) "Guaranty" means an agreement to pay specified  
5 obligations of the limited purpose subsidiary by a holding company  
6 or affiliated company of the limited purpose subsidiary approved by  
7 the commissioner that is not a ceding insurer and the guarantor has  
8 sufficient equity, less the equity of all ceding insurers that are  
9 subsidiaries of the guarantor, to satisfy the agreement during the  
10 life of the guaranty.

11           (6) "Holding company" means a person who directly or  
12 indirectly controls an insurer.

13           (7) "Insurance securitization" or "securitization"  
14 means a transaction or a group of related transactions, which may  
15 include capital market offerings, that are effected through related  
16 risk transfer instruments and facilitating administrative  
17 agreements where all or part of the result of such transactions is  
18 used to fund the LPS's obligations under a reinsurance contract  
19 with a ceding insurer and by which proceeds are:

20                   (A) obtained by an LPS, directly or indirectly,  
21 through the issuance of securities by the LPS or any other person;  
22 or

23                   (B) provided through one or more letters of  
24 credit or other assets for the benefit of the LPS, which the  
25 commissioner authorizes the LPS to treat as admitted assets for  
26 purposes of the LPS's annual statement where all or any part of such  
27 proceeds, letters of credit, or assets, as applicable, is used to

1 fund the LPS's obligations under a reinsurance contract with a  
2 ceding insurer.

3 (8) "Insurer" for purposes of this chapter, means a  
4 domestic life insurance company organized under Chapter 841.

5 (9) "Letters of credit" means clean, unconditional,  
6 irrevocable letters of credit issued or confirmed by a qualified  
7 United States financial institution as defined in Section  
8 492.104(b)(2)(C) of this code.

9 (10) "LPS" means a limited purpose subsidiary life  
10 insurance company organized pursuant to this subchapter, that is  
11 wholly owned by a life insurance company or an affiliated company  
12 and that is issued a certificate of authority by the commissioner  
13 pursuant to this chapter.

14 (11) "LPS security" means:

15 (A) a security issued by an LPS; or

16 (B) a security issued by a third party, the  
17 proceeds of which are obtained directly or indirectly by an LPS.

18 (12) "Management" means the board of directors,  
19 managing board, or other individual or individuals vested with  
20 overall responsibility for the management of the affairs of the  
21 LPS.

22 (13) "Material" means a transaction or series of  
23 transactions involving amounts equal to or exceeding three percent  
24 of the LPS's admitted assets less any letters of credit, guaranties  
25 and intangible assets included as an admitted asset of the LPS.

26 (14) "Organizational documents" means an LPS's  
27 articles of incorporation and bylaws.

1           (15) "Organizing company" means the company that  
2 organizes an LPS pursuant to this subchapter.

3           (16) "Parent" means a person, as defined in Section  
4 823.002(7) of this code, that directly or indirectly through one or  
5 more intermediaries wholly owns or is an affiliated company of an  
6 LPS.

7           (17) "Person" has the same meaning as defined in  
8 Section 823.002(7) of this code.

9           (18) "Reinsurance contract" means a contract between  
10 an LPS and a ceding insurer pursuant to which the LPS agrees to  
11 provide reinsurance to the ceding insurer for risks.

12           (19) "Risk" means risks associated with life insurance  
13 policies and annuity contracts written by the ceding insurer or  
14 assumed by the ceding insurer from an affiliated company which were  
15 written by the affiliated company and for which the ceding insurer  
16 holds statutory reserves for those policies.

17           (20) "Security" means the same as defined in Article  
18 581-4(a), Vernon' Civil Statutes, and shall also include any form  
19 of debt obligation, surplus note, derivative, or other financial  
20 instrument that the commissioner designates as a "security" for  
21 purposes of this chapter.

22           (21) "Surplus note" means an unsecured subordinated  
23 debt obligation.

24           Sec. 841.803. ORGANIZATIONAL DOCUMENTS OF AN LPS. (a)  
25 Either a wholly owned domestic insurer authorized to transact the  
26 business of insurance pursuant to Chapter 841 or an affiliated  
27 company organized or authorized to conduct business under the laws

1 of this state may organize a domestic limited purpose subsidiary  
2 life insurance company pursuant to the provisions of this chapter.

3 (b) The limited purpose subsidiary life insurance company  
4 may reinsure risks of the organizing company, reinsure risks of  
5 affiliated companies, and access alternative forms of financing.

6 (c) An LPS's organizational documents shall limit the LPS's  
7 authority to transact the business of reinsurance to reinsure only  
8 the risks of a ceding insurer and shall state that the LPS shall not  
9 otherwise engage in the business of insurance.

10 (d) An LPS's organizational documents shall provide that  
11 the LPS shall always be either wholly owned by a domestic insurer  
12 authorized to transact the business of insurance pursuant to  
13 Chapter 841 or an affiliated company organized or authorized to do  
14 business under the laws of this state.

15 Sec. 841.804. CERTIFICATE OF AUTHORITY REQUIRED. No LPS  
16 shall do any reinsurance business in this state unless it obtains  
17 from the commissioner a certificate of authority pursuant to this  
18 rule.

19 Sec. 841.805. APPLICATION FOR CERTIFICATE OF AUTHORITY.

20 (a) To obtain a charter for a domestic LPS, the incorporators must  
21 pay to the department the charter fee in an amount determined under  
22 Chapter 202 and file with the department:

23 (1) an application for charter on the form and  
24 containing the information prescribed by the commissioner;

25 (2) the company's articles of incorporation;

26 (3) an affidavit made by two or more of the  
27 incorporators that states that:

1           (A) the minimum capital and surplus requirements  
2 of this subchapter are satisfied;

3           (B) the capital and surplus are the bona fide  
4 property of the company;

5           (C) the information in the articles of  
6 incorporation is true and correct;

7           (4) submit any other statements or documents required  
8 by the commissioner to evaluate the LPS's application for a  
9 certificate of authority.

10       Sec. 841.806. INVESTMENT BY ORGANIZING COMPANY. If the  
11 organizing company is a domestic life insurance company, it may  
12 invest funds from its surplus in a limited purpose subsidiary life  
13 insurance company organized pursuant to this section.

14       Sec. 841.807. OFFICERS AND DIRECTORS. The organizing  
15 company's officers and directors may serve as officers and  
16 directors of a limited purpose subsidiary life insurance company  
17 organized pursuant to this section.

18       Sec. 841.808. ISSUANCE OF CERTIFICATE OF AUTHORITY. (a)  
19 The commissioner may issue a certificate of authority to an LPS,  
20 authorizing the LPS to transact reinsurance business as an LPS in  
21 this state based on the findings required in Section 841.061 of this  
22 code.

23       (b) In conjunction with the issuance of a certificate of  
24 authority to an LPS, the commissioner may issue an order that  
25 includes any provisions, terms, and conditions regarding the  
26 organization, licensing, and operation of the LPS that the  
27 commissioner deems appropriate and that are not inconsistent with

1 the provisions of this chapter.

2 Sec. 841.809. SCOPE OF CERTIFICATE OF AUTHORITY. (a) An  
3 LPS that has been issued a certificate of authority may reinsure  
4 only the risks of a ceding insurer.

5 (b) An LPS shall not otherwise engage in the business of  
6 insurance.

7 (c) An LPS may purchase reinsurance to cede the risks  
8 assumed under a reinsurance contract.

9 (d) A limited purpose subsidiary life insurance company  
10 organized pursuant to this section shall be deemed to be licensed to  
11 transact the business of reinsurance for the purposes of Section  
12 492.051, but may only reinsure risks of its affiliated companies.

13 Sec. 841.810. CAPITAL AND SURPLUS. (a) An LPS shall not be  
14 issued a certificate of authority unless it possesses and  
15 thereafter maintains unimpaired paid-in capital and surplus of not  
16 less than the amounts required by Section 841.054(a) of this code.

17 Sec. 841.811. DIVIDENDS AND DISTRIBUTIONS. An LPS may pay  
18 dividends and distributions that do not decrease the capital of the  
19 LPS below the minimum capital and surplus amount required by  
20 Section 841.810.

21 Sec. 841.812. REPORTS OF SECURITIZATIONS. An LPS shall  
22 provide the commissioner with a copy of a complete set of executed  
23 documentation of an insurance securitization no later than 45 days  
24 after the closing on the transactions for such securitization.

25 Sec. 841.813. FORECLOSURE ON COLLATERAL. An LPS shall  
26 notify the commissioner immediately of any action by a ceding  
27 insurer or any other person to foreclose on or otherwise take

1 possession of collateral provided by the LPS to secure any  
2 obligation of the LPS.

3 Sec. 841.814. FILING REPORTS WITH THE NATIONAL ASSOCIATION  
4 OF INSURANCE COMMISSIONERS. Notwithstanding Section 802.051 of  
5 this code, or any other law, an LPS shall not be required to file any  
6 report, notice, or other document with the National Association of  
7 Insurance Commissioners unless required by the commissioner.

8 Sec. 841.815. SECURITIZATION AGREEMENTS. The LPS  
9 securitization, the security-offering memorandum or other document  
10 issued to prospective investors regarding the offer and sale of a  
11 surplus note or other security shall include a disclosure that all  
12 or part of the proceeds of such insurance securitization will be  
13 used to fund the LPS's obligations to the ceding insurer.

14 Sec. 841.816. ADMITTED ASSETS. (a) Admitted assets of a  
15 limited purpose subsidiary life insurance company shall include  
16 assets approved by the commissioner which shall be deemed to be, and  
17 reported as, admitted assets of the LPS.

18 (b) In addition to the investments authorized under  
19 Subchapters C, and D of Chapter 425 of this code and notwithstanding  
20 any other law, admitted assets of the LPS shall include proceeds  
21 from a securitization, premium and other amounts payable by a  
22 ceding insurer to the LPS, letters of credit, guaranties of a  
23 holding company, guaranties of an affiliated company, and any other  
24 assets approved by the commissioner, which shall be deemed to be,  
25 and reported as, admitted assets of the LPS.

26 Sec. 841.817. SECURITIES. (a) An LPS security shall not be  
27 subject to regulation as an insurance or reinsurance contract.



1       (b) An investor in such a security or a holder of such a  
2 security shall not be considered to be transacting the business of  
3 insurance in this state solely by reason of having an interest in  
4 the security.

5       (c) The underwriter's placement or selling agents and their  
6 partners, commissioners, officers, members, managers, employees,  
7 agents, representatives, and advisors involved in an insurance  
8 securitization by an LPS shall not be considered to be insurance  
9 producers or brokers or to be conducting business as an insurance or  
10 reinsurance company or as an insurance agency, brokerage,  
11 intermediary, advisory, or consulting business solely by virtue of  
12 their underwriting activities in connection with such  
13 securitization.

14       Sec. 841.818. PERMITTED REINSURANCE. (a) An LPS may  
15 reinsure, pursuant to a reinsurance contract, only the risks of a  
16 ceding insurer.

17       (b) Unless otherwise approved in advance by the  
18 commissioner, an LPS may not assume or retain exposure to  
19 reinsurance losses for its own account that are not funded by one or  
20 more of the following:

21             (1) proceeds from a securitization;

22             (2) premium and other amounts payable by the ceding  
23 insurer to the LPS pursuant to the reinsurance contract;

24             (3) letters of credit;

25             (4) guaranties of a holding or affiliated company; or

26             (5) any return on investment of the items in

27 Subsections (1) or (2).

1       (c) An LPS may cede risks assumed through a reinsurance  
2 contract to one or more reinsurers through the purchase of  
3 reinsurance, subject to the prior approval of the commissioner.

4       (d) An LPS may enter into contracts and conduct other  
5 commercial activities related or incidental to and necessary to  
6 fulfill the purposes of a reinsurance contract, an insurance  
7 securitization, and this chapter. Such contracts and activities  
8 may include but are not limited to:

9             (1) entering into reinsurance contracts;

10            (2) issuing LPS securities;

11            (3) complying with the terms of these contracts or  
12 securities;

13            (4) entering into trust, guaranteed investment  
14 contract, swap, or other derivative, tax, administration, services  
15 reimbursement, or fiscal agent transactions;

16            (5) complying with trust indenture, reinsurance, or  
17 retrocession; or

18            (6) entering into other agreements necessary or  
19 incidental to effect a reinsurance contract or an insurance  
20 securitization in compliance with this chapter.

21       (e) Unless otherwise approved in advance by the  
22 commissioner, a reinsurance contract shall not contain any  
23 provision for payment by the LPS in discharge of its obligations  
24 under the reinsurance contract to any person other than the ceding  
25 insurer or any receiver of the ceding insurer.

26       Sec. 841.825. OTHER LAWS NOT APPLICABLE. The deposit  
27 requirements in Subchapter H of this chapter shall not apply to an

1 LPS.

2 SECTION 2. This Act shall be effective January 1, 2012.

**ADOPTED**

MAY 23 2011

*Atty Gen*  
Secretary of the Senate

By: *Rebecca VandePutte*

H.B. No. 3161

Substitute the following for H.B. No. 3161:

By: *Rebecca VandePutte*

C.S. H.B. No. 3161

A BILL TO BE ENTITLED

1

AN ACT

2 relating to limited purpose subsidiary life insurance companies.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

4 SECTION 1. Chapter 841, Insurance Code, is amended by  
5 adding Subchapter I to read as follows:

6 SUBCHAPTER I. LIMITED PURPOSE SUBSIDIARY LIFE INSURANCE COMPANIES

7 Sec. 841.401. PURPOSE. The purpose of this subchapter is to  
8 authorize the establishment of domestic limited purpose subsidiary  
9 life insurance companies to enable those companies to support  
10 excess reserves for certain life insurance policies.

11 Sec. 841.402. DEFINITIONS. In this subchapter:

12 (1) "Affiliated company" means:

13 (A) domestic life insurance companies that are  
14 directly or indirectly wholly owned subsidiaries of the same  
15 holding company; or

16 (B) controlled persons.

17 (2) "Appointed actuary" means the actuary who is  
18 appointed by a limited purpose subsidiary life insurance company to  
19 render the actuarial opinion required by Subchapter B, Chapter 425.

20 (3) "Ceding insurer" means a company that cedes risk  
21 to a limited purpose subsidiary life insurance company under a  
22 reinsurance contract and that is:

23 (A) a domestic life insurance company that is the  
24 parent of a limited purpose subsidiary life insurance company; or

1                   (B) an affiliated company of a limited purpose  
2 subsidiary life insurance company.

3                   (4) "Controlled person" means a person organized or  
4 authorized to do business under the laws of this state that is  
5 controlled directly or indirectly by a holding company.

6                   (5) "Excess reserves" means the amount of statutory  
7 reserves determined to be redundant by the appointed actuary for  
8 life insurance policies whose reserves are calculated under 28  
9 T.A.C. Chapter 3, Subchapter EE. Excess reserves may not be an  
10 amount greater than the difference between the reserves calculated  
11 using 28 T.A.C. Chapter 3, Subchapter EE, and the reserves  
12 calculated using generally accepted accounting principles.

13                   (6) "Guarantor" means a holding company or an  
14 affiliated company under Section 841.417 of the limited purpose  
15 subsidiary life insurance company that is a party to a guaranty.

16                   (7) "Guaranty" means a commissioner-approved  
17 agreement by a guarantor with sufficient equity and financial  
18 strength to pay, during the life of the guaranty, an amount equal to  
19 the specified obligations of a limited purpose subsidiary life  
20 insurance company, less the equity of all ceding insurers that are  
21 subsidiaries of the guarantor, to satisfy the agreement.

22                   (8) "Holding company" means a person that directly or  
23 indirectly controls an insurer.

24                   (9) "Insurer" means a domestic life insurance company  
25 organized under this chapter.

26                   (10) "Letter of credit" means a clean, unconditional,  
27 irrevocable letter of credit issued or confirmed by a qualified

1 United States financial institution, as defined by Section  
2 492.104(b)(2)(C).

3 (11) "Limited purpose subsidiary life insurance  
4 company" means a limited purpose subsidiary life insurance company  
5 organized under this subchapter:

6 (A) that is wholly owned by a life insurance  
7 company or an affiliated company; and

8 (B) to which the commissioner issues a  
9 certificate of authority under this chapter.

10 (12) "Material transaction" means a transaction or  
11 series of transactions involving amounts equal to or exceeding  
12 three percent of a limited purpose subsidiary life insurance  
13 company's admitted assets.

14 (13) "Organizational document" means a limited  
15 purpose subsidiary life insurance company's articles of  
16 incorporation and the company's bylaws.

17 (14) "Organizing company" means the company that  
18 organizes a limited purpose subsidiary life insurance company under  
19 this subchapter.

20 (15) "Parent" means a person that directly or  
21 indirectly controls through one or more intermediaries, or wholly  
22 owns, a limited purpose subsidiary life insurance company.

23 (16) "Person" has the meaning assigned by Section  
24 823.002.

25 (17) "Reinsurance contract" means a contract between a  
26 limited purpose subsidiary life insurance company and a ceding  
27 insurer under which the limited purpose subsidiary life insurance

1 company agrees to provide reinsurance to the ceding insurer for  
2 certain risks.

3 (18) "Risk" means a risk associated with life  
4 insurance policies written on or after the effective date of this  
5 chapter by a ceding insurer, or assumed by a ceding insurer from an  
6 affiliated company under life insurance policies which were written  
7 on or after the effective date of this chapter, by the affiliated  
8 company and for which the ceding insurer calculates statutory  
9 reserves for those policies pursuant to 28 T.A.C. Chapter 3,  
10 Subchapter EE.

11 Sec. 841.403. ORGANIZATIONAL DOCUMENTS. (a) A wholly  
12 owned domestic insurer authorized to transact the business of  
13 insurance under this chapter or an affiliated company organized or  
14 authorized to conduct business under the laws of this state may  
15 organize a limited purpose subsidiary life insurance company under  
16 this subchapter.

17 (b) A limited purpose subsidiary life insurance company may  
18 reinsure risks of the organizing company and of an affiliated  
19 company.

20 (c) A limited purpose subsidiary life insurance company's  
21 organizational documents must:

22 (1) limit the company's authority to transact the  
23 business of insurance to reinsuring only the risks of a ceding  
24 insurer;

25 (2) provide that the limited purpose subsidiary life  
26 insurance company may not otherwise engage in the business of  
27 insurance; and

1           (3) provide that the limited purpose subsidiary life  
2 insurance company must always be wholly owned by a domestic insurer  
3 authorized to transact the business of insurance under this chapter  
4 or by an affiliated company organized or authorized to do business  
5 under the laws of this state.

6           Sec. 841.404. CERTIFICATE OF AUTHORITY REQUIRED. A limited  
7 purpose subsidiary life insurance company may not engage in the  
8 business of reinsurance in this state unless the limited purpose  
9 subsidiary life insurance company obtains from the commissioner a  
10 certificate of authority under this subchapter.

11           Sec. 841.405. APPLICATION FOR CERTIFICATE OF AUTHORITY. To  
12 obtain a charter for a limited purpose subsidiary life insurance  
13 company, the incorporators of the company shall pay to the  
14 department a charter fee in an amount determined under Chapter 202  
15 and file with the department:

16           (1) an application for charter on the form prescribed  
17 by, and containing the information prescribed by, the commissioner;

18           (2) the company's articles of incorporation;

19           (3) an affidavit made by the company's president, vice  
20 president, treasurer, or chief financial officer stating that:

21           (A) the minimum capital and surplus requirements  
22 of this subchapter are satisfied;

23           (B) the capital and surplus are the bona fide  
24 property of the company;

25           (C) the information in the articles of  
26 incorporation is true and correct;

27           (D) the proposed organization and operation of



1 the limited purpose subsidiary life insurance company comply with  
2 all applicable provisions of this subchapter;

3 (E) the limited purpose subsidiary life  
4 insurance company's investment policy reflects and takes into  
5 account the liquidity of assets and the reasonable preservation,  
6 administration, and management of those assets with respect to the  
7 risks associated with the reinsurance contract; and

8 (F) any reinsurance contract and any arrangement  
9 for securing the limited purpose subsidiary life insurance  
10 company's obligations under the reinsurance contract, including  
11 any agreements or other documentation to implement the arrangement;

12 (4) a business plan that includes pro forma financial  
13 statement projections that demonstrate how the limited purpose  
14 subsidiary life insurance company will comply with Section 841.412;

15 (5) a copy of any proposed guaranty that demonstrates  
16 how compliance with Sections 841.412 and 841.417 will be achieved;

17 (6) an opinion of a qualified independent actuary  
18 acceptable to the commissioner that the methodology and assumptions  
19 used to set and discount reserves make good and sufficient  
20 provision for the risk assumed by the limited purpose subsidiary  
21 life insurance company, including significant stress tests on key  
22 assumptions; and

23 (7) any other statement or document required by the  
24 commissioner to evaluate the limited purpose subsidiary life  
25 insurance company's application for a certificate of authority.

26 Sec. 841.406. INVESTMENT OF CERTAIN SURPLUS BY ORGANIZING  
27 COMPANY. If the company that organizes a limited purpose

1 subsidiary life insurance company is a domestic life insurance  
2 company, the organizing company may invest funds from the  
3 organizing company's surplus in the limited purpose subsidiary life  
4 insurance company.

5 Sec. 841.407. OFFICERS AND DIRECTORS. The officers and  
6 directors of a company that organizes a limited purpose subsidiary  
7 life insurance company may serve as officers and directors of the  
8 limited purpose subsidiary life insurance company.

9 Sec. 841.408. ISSUANCE OF CERTIFICATE OF AUTHORITY. (a)  
10 The commissioner may issue a certificate of authority to a limited  
11 purpose subsidiary life insurance company, authorizing the company  
12 to transact reinsurance business in this state as a limited purpose  
13 subsidiary life insurance company based on a finding that:

14 (1) the company's application meets the criteria  
15 contained in this subsection;

16 (2) the proposed plan of the limited purpose  
17 subsidiary life insurance company provides for viable operation of  
18 the company, including a determination by the commissioner that the  
19 limited purpose subsidiary life insurance company applicant has  
20 sufficiently strong financial support;

21 (3) the guaranties meet the requirements of Section  
22 841.417;

23 (4) the terms of any reinsurance arrangement,  
24 including the reinsurance contract and related transactions,  
25 comply with this subchapter and all applicable insurance laws and  
26 rules;

27 (5) the proposed application and reinsurance

1 arrangement is not hazardous to any ceding insurer; and

2 (6) the proposed application and reinsurance contract  
3 will always fund authorized investments that comply with Section  
4 841.412, including statutory reserves for life insurance with  
5 invested assets at least equal to the amount of reserves required  
6 under generally accepted accounting principles.

7 (b) In conjunction with the issuance of a certificate of  
8 authority under this section, the commissioner may issue an order  
9 that includes any provisions, terms, and conditions regarding the  
10 organization, licensing, and operation of the limited purpose  
11 subsidiary life insurance company that the commissioner deems  
12 appropriate and that are not inconsistent with this chapter,  
13 including requesting from the company information to monitor the  
14 financial strength of guarantors and requiring the periodic  
15 reporting and monitoring of assets behind any guaranties issued.

16 Sec. 841.409. SCOPE OF CERTIFICATE OF AUTHORITY. (a) A  
17 limited purpose subsidiary life insurance company that has been  
18 issued a certificate of authority may reinsure only the risks of a  
19 ceding insurer. A limited purpose subsidiary life insurance  
20 company may not otherwise engage in the business of insurance.

21 (b) A limited purpose subsidiary life insurance company may  
22 purchase reinsurance to cede the risks assumed under a reinsurance  
23 contract.

24 (c) A limited purpose subsidiary life insurance company  
25 organized under this subchapter is considered to be licensed to  
26 transact the business of reinsurance for the purposes of Section  
27 492.051, but may only reinsure risks of the company's affiliated

1 companies.

2 (d) A limited purpose subsidiary life insurance company  
3 shall provide the commissioner with notice of any change in the  
4 company's business plan required by Section 841.405, including any  
5 material change in the methods used to comply with Section 841.413.

6 Sec. 841.410. CAPITAL AND SURPLUS. (a) The commissioner  
7 may not issue a certificate of authority to a limited purpose  
8 subsidiary life insurance company unless the company possesses and  
9 maintains unimpaired paid-in capital and surplus of not less than  
10 \$10 million.

11 (b) A limited purpose subsidiary life insurance company  
12 shall comply with the risk-based capital requirements adopted by  
13 the commissioner by rule.

14 (c) A limited purpose subsidiary life insurance company  
15 shall maintain risk-based capital in an amount that is at least  
16 equal to 300 percent of the authorized control level of risk-based  
17 capital adopted by the commissioner.

18 Sec. 841.411. FORECLOSURE ON COLLATERAL. A limited purpose  
19 subsidiary life insurance company shall immediately notify the  
20 commissioner of any action by a ceding insurer or any other person  
21 to foreclose on, or otherwise take possession of, collateral  
22 provided by the limited purpose subsidiary life insurance company  
23 to secure an obligation of the company.

24 Sec. 841.412. MINIMUM AUTHORIZED INVESTMENT REQUIREMENT  
25 AFTER CREDIT FOR REINSURANCE; LETTERS OF CREDIT; GUARANTIES. (a) A  
26 limited purpose subsidiary life insurance company shall hold  
27 investments authorized under Subchapters C and D, Chapter 425,

1 exclusive of investments in affiliates, in an amount that at least  
2 equals the sum of:

3 (1) the minimum capital and surplus requirements of  
4 Section 841.410;

5 (2) the risk-based capital requirements adopted by the  
6 commissioner; and

7 (3) reserves calculated using generally accepted  
8 accounting principles.

9 (b) Subject to compliance with Subsection (a) and  
10 notwithstanding Chapter 425, a limited purpose subsidiary life  
11 insurance company may reduce the amount of the company's excess  
12 reserves on account of:

13 (1) reinsurance that complies with Chapter 492;

14 (2) a letter of credit that complies with Section  
15 492.104(b)(2)(C); or

16 (3) guaranties from a holding company or an affiliated  
17 company as provided by Section 841.417.

18 (c) Notwithstanding Subsection (b), a limited purpose  
19 subsidiary life insurance company may hold guaranties from a  
20 holding company or an affiliated company as provided by Section  
21 841.417 as an admitted asset with an offsetting increase in special  
22 surplus funds to support excess reserves only.

23 Sec. 841.413. PERMITTED REINSURANCE. (a) A limited  
24 purpose subsidiary life insurance company may only reinsure the  
25 risks of a ceding insurer under a reinsurance contract.

26 (b) Unless otherwise approved in advance by the  
27 commissioner, a limited purpose subsidiary life insurance company

1 may not assume or retain exposure to reinsurance losses for the  
2 company's own account that are not funded by:

3 (1) premium and other amounts payable by the ceding  
4 insurer to the limited purpose subsidiary life insurance company  
5 under the reinsurance contract, or any return on the investment of  
6 the premiums or other amounts;

7 (2) letters of credit that qualify under Section  
8 492.104(b)(2)(C); or

9 (3) guaranties of a holding company or an affiliated  
10 company as provided by Section 841.417.

11 (c) A limited purpose subsidiary life insurance company may  
12 cede risks assumed under a reinsurance contract to one or more  
13 reinsurers through the purchase of reinsurance, subject to the  
14 prior approval of the commissioner. The commissioner may approve a  
15 reinsurance contract under this subsection if the commissioner  
16 finds that:

17 (1) the proposed reinsurance complies with Chapter  
18 492;

19 (2) the proposed reinsurer has sufficient liquidity,  
20 admitted assets, and policyholder surplus to support the  
21 liabilities assumed under the reinsurance contract; and

22 (3) the proposed reinsurance contract would not result  
23 in a hazardous financial condition for the limited purpose  
24 subsidiary life insurance company.

25 (d) A limited purpose subsidiary life insurance company may  
26 enter into contracts and conduct other commercial activities  
27 related or incidental to, and necessary to fulfill the purposes of,

1 a reinsurance contract.

2 Sec. 841.414. REPORTS ON RESERVES AND RISK-BASED CAPITAL.

3 (a) A limited purpose subsidiary life insurance company annually  
4 shall file an opinion of the appointed actuary acceptable to the  
5 commissioner concerning the methods and assumptions used to set  
6 reserves. The opinion must demonstrate that the limited purpose  
7 subsidiary life insurance company holds risk-based capital and  
8 invested admitted assets that are at least equal to reserves  
9 specified by generally accepted accounting principles.

10 (b) The commissioner may reject the opinion of the appointed  
11 actuary if the commissioner determines that accepting the opinion  
12 would be hazardous to policyholders, enrollees, creditors, or the  
13 public.

14 (c) A limited purpose subsidiary life insurance company  
15 annually shall file with the commissioner a report of the limited  
16 purpose subsidiary life insurance company's risk-based capital  
17 level as of the end of the preceding calendar year containing the  
18 information required by the risk-based capital instructions  
19 adopted by the commissioner.

20 Sec. 841.415. OTHER LAWS NOT APPLICABLE. The deposit  
21 requirements in Subchapter H do not apply to a limited purpose  
22 subsidiary life insurance company.

23 Sec. 841.416. APPLICABILITY OF OTHER LAW. Except as  
24 specifically provided by law, all provisions of this code apply to a  
25 limited purpose subsidiary life insurance company formed under this  
26 subchapter.

27 Sec. 841.417. GUARANTY REQUIREMENTS. (a) A guaranty may

1 not be used to comply with this chapter without the prior written  
2 approval of the commissioner.

3 (b) Before approving a guaranty, the commissioner must find  
4 that:

5 (1) the guarantor has capital and surplus of \$100  
6 million, exclusive of investments in subsidiaries and affiliates;

7 (2) the guarantor has admitted assets backing capital  
8 and surplus in an amount sufficient to fulfill the guaranty, and the  
9 sufficiency on an ongoing basis is demonstrated to the satisfaction  
10 of the commissioner;

11 (3) the guarantor and all affiliates are in good  
12 standing with the department;

13 (4) the guarantor has provided all information  
14 requested by the commissioner; and

15 (5) the guarantor is otherwise acceptable to the  
16 commissioner.

17 (c) Notwithstanding Subsection (b), the commissioner may  
18 allow, subject to the commissioner's prior approval, an affiliated  
19 company of the holding company to serve as guarantor. The  
20 commissioner may approve an affiliated company as a guarantor on a  
21 finding that the affiliated company possesses the independent  
22 financial means to discharge the guaranty using the affiliated  
23 company's own financial resources.

24 Sec. 841.418. SUNSET PROVISION. This subchapter is valid  
25 for business sold only until January 1 of the year in which  
26 principle-based reserve requirements become operative in Texas  
27 under the adoption of the National Association of Insurance



1 Commissioners' 2009 amendments to the NAIC Model Standard Valuation  
2 Law. After that January 1, the limited purpose subsidiary life  
3 insurance company may not assume new risks of a ceding insurer  
4 relating to business sold after that date.

5 Sec. 841.419. CERTIFICATION OF ACTUARIAL OFFICER. (a) At  
6 the time a limited purpose subsidiary life insurance company files  
7 an application for a certificate of authority under this  
8 subchapter, and not later than March 1 of each year that a limited  
9 purpose subsidiary life insurance company is in operation and is  
10 ceded new business from a ceding insurer, a senior actuarial  
11 officer of each ceding insurer shall file with the commissioner a  
12 certification that the ceding insurer's transactions with the  
13 limited purpose subsidiary life insurance company are not being  
14 used to gain an unfair advantage in the pricing of the ceding  
15 insurer's products.

16 (b) A ceding insurer may not be deemed to have an unfair  
17 advantage if the pricing of the policies and contracts reinsured by  
18 the limited purpose subsidiary life insurance company reflects, at  
19 the time the policies and contracts were issued, a reasonable  
20 long-term estimate of the cost to the ceding insurer of an  
21 alternative third-party transaction, and uses current pricing  
22 assumptions.

23 (c) The ceding insurer shall keep documentation between  
24 examinations that sets forth the manner in which a senior actuarial  
25 officer arrived at the conclusions in the certification.

26 Sec. 841.420. ACCOUNTING AND FINANCIAL REPORTING. The  
27 commissioner shall prescribe accounting and financial reporting

1 requirements with regard to the limited purpose subsidiary life  
2 insurance company and any insurer as defined by Section 841.402  
3 that organizes a limited purpose subsidiary life insurance company.

4       SECTION 2. This Act takes effect immediately if it receives  
5 a vote of two-thirds of all the members elected to each house, as  
6 provided by Section 39, Article III, Texas Constitution. If this  
7 Act does not receive the vote necessary for immediate effect, this  
8 Act takes effect September 1, 2011.

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**May 24, 2011**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

**FROM:** John S O'Brien, Director, Legislative Budget Board

**IN RE: HB3161** by Hancock (Relating to limited purpose subsidiary life insurance companies.), As  
**Passed 2nd House**

**No significant fiscal implication to the State is anticipated.**

The bill would amend the Insurance Code relating to limited purpose subsidiary life insurance companies. Based on the analysis provided by the Texas Department of Insurance, it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing agency resources.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 454 Department of Insurance, 304 Comptroller of Public Accounts

**LBB Staff:** JOB, SD, KJG, CH

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**May 17, 2011**

**TO:** Honorable Robert Duncan, Chair, Senate Committee on State Affairs

**FROM:** John S O'Brien, Director, Legislative Budget Board

**IN RE: HB3161** by Hancock (Relating to limited purpose subsidiary life insurance companies.),  
**Committee Report 2nd House, Substituted**

**No significant fiscal implication to the State is anticipated.**

The bill would amend the Insurance Code relating to limited purpose subsidiary life insurance companies. Based on the analysis provided by the Texas Department of Insurance, it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing agency resources.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 454 Department of Insurance, 304 Comptroller of Public Accounts

**LBB Staff:** JOB, KJG, CH

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**May 10, 2011**

**TO:** Honorable Robert Duncan, Chair, Senate Committee on State Affairs

**FROM:** John S O'Brien, Director, Legislative Budget Board

**IN RE: HB3161** by Hancock (Relating to limited purpose subsidiary life insurance companies.), **As Engrossed**

**No significant fiscal implication to the State is anticipated.**

The bill would amend the Insurance Code relating to limited purpose subsidiary life insurance companies. Based on the analysis provided by the Texas Department of Insurance, it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing agency resources.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 454 Department of Insurance

**LBB Staff:** JOB, KJG, CH

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**April 10, 2011**

**TO:** Honorable John T. Smithee, Chair, House Committee on Insurance

**FROM:** John S O'Brien, Director, Legislative Budget Board

**IN RE: HB3161** by Hancock (Relating to limited purpose subsidiary life insurance companies.), **As Introduced**

**No significant fiscal implication to the State is anticipated.**

The bill would amend the Insurance Code relating to limited purpose subsidiary life insurance companies. Based on the analysis provided by the Texas Department of Insurance, it is assumed that all duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing agency resources.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 454 Department of Insurance

**LBB Staff:** JOB, KJG, CH