BILL ANALYSIS

S.B. 1006
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Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Policyholder dividends are refunds of insurance premiums that insurers pay to policyholders. Under current law, the Texas Department of Insurance (TDI) must approve all policyholder dividends by formal order issued by the commissioner of insurance before the insurers are permitted to pay the amount, regardless of the amount of the distribution in proportion to the overall financial condition of the company. TDI reports that, recently, most policyholder dividend filings received are minimal when compared to the overall financial condition of the filing companies. Concerns have been raised that the process of obtaining formal approval can take time as TDI's staff must draft, refine, and administratively process official commissioner orders. TDI estimates that the regulatory review takes only a few days; however, because of the formal approval requirement, the entire process can take 20 to 30 days or longer, according to interested parties.

S.B. 1006 seeks to enhance the efficiency of TDI's approval process, shorten the time frame for regulatory filings by insurers, and expedite premium refunds to policyholders by establishing a threshold that policyholder dividend amounts must exceed before a company is required to obtain prior approval from TDI. S.B. 1006 also seeks to codify an existing TDI practice by clarifying that the current restriction on paying dividends from an insurer's earned surplus applies only to shareholder dividends.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 1006 amends the Insurance Code to make statutory provisions prohibiting an insurer from paying a dividend except from surplus profits arising from the insurer's business applicable only to shareholder dividends.

S.B. 1006 limits the requirement that a policyholder dividend distributed by an automobile or casualty insurer be approved by the commissioner of insurance to a dividend in an amount that exceeds 10 percent of surplus and requires such an insurer to notify the commissioner in writing of each distribution if the insurer's policyholder dividend amount does not exceed 10 percent of surplus. The bill clarifies that a comparable limitation and requirement apply to an automobile or casualty insurer that elects to distribute policyholder dividends in an amount that exceeds 10 percent of surplus or an amount that does not exceed 10 percent of surplus, as applicable, to members of certain nonprofit business associations or policyholders who are on active duty in the U.S. military, as applicable.

S.B. 1006 limits the requirement that a policyholder dividend under a workers' compensation insurance policy be approved by the Texas Department of Insurance (TDI) to a policyholder dividend in an amount that exceeds 10 percent of surplus. The bill requires an insurer to notify

TDI in writing of such a distribution if the insurer's policyholder dividend amount is not greater than 10 percent of surplus.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2013.