

BILL ANALYSIS

Senate Research Center
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H.B. 2839
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Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Liquidity demands can be placed unexpectedly on a life insurer that issues long-term cash-buildup products, particularly when cash and asset surrenders are experienced at greater-than-projected levels during widespread economic shifts. Elevated demand of cash payouts by customers can impact broader financial markets if those insurers are required to sell a significant amount of assets to meet demand.

Because of the liquidity challenges faced by many financial markets' participants during the 2008 financial crisis, state regulators attempted to analyze potential market impacts resulting from liquidity stress in the insurance sector. State regulators have created a liquidity stress test framework for large life insurers that issue products that could generate a high demand for cash payouts. This stress test is designed to simulate large-scale asset sales in response to unexpected liquidity demands and to assess the potential impact of these sales on financial markets. A secondary goal of the liquidity stress test implementation is to enhance monitoring of large life insurers that potentially are vulnerable to liquidity stress.

H.B. 2839 would implement a biennial recommendation from the Texas Department of Insurance by requiring the commissioner of insurance by rule to adopt a liquidity stress test framework, including scope criteria and reporting templates. What's more, the bill would require the ultimate controlling entity of an insurer, such as the holding company, to file the insurer's liquidity stress test results.

H.B. 2839 amends current law relating to a liquidity stress test for certain insurance companies.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the commissioner of insurance in SECTION 1 (Section 823.0596, Insurance Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 823, Insurance Code, by adding Section 823.0596, as follows:

Sec. 823.0596. LIQUIDITY STRESS TEST. (a) Defines "liquidity stress test framework," "scope criteria," and "ultimate controlling person."

(b) Requires the ultimate controlling person of an insurer to file the insurer's results of a specific year's liquidity stress test performed using the liquidity stress test framework adopted by the commissioner of insurance (commissioner) by rule under Subsection (e) if this state is the lead state of the insurer's group and if the insurer or the insurer's group meets the scope criteria.

(c) Requires that the filing be made on the reporting template for the relevant year adopted by the commissioner by rule under Subsection (e).

(d) Authorizes the commissioner to exempt from the filing requirement for a data year an insurer described by Subsection (b) after the commissioner consults with

other state insurance commissioners regarding the impact that exempting the insurer is authorized to have on the aggregation of liquidity stress test results filed by other insurers with those states.

(e) Requires the commissioner by rule to adopt a liquidity stress test framework, including scope criteria and reporting templates, consistent with the framework published by the National Association of Insurance Commissioners to facilitate the aggregation of results from the liquidity stress test filed with this and other states.

(f) Requires the commissioner to collect the results filed under Subsection (b) and report them to the National Association of Insurance Commissioners in a manner that facilitates the aggregation of other insurers' results filed with this and other states.

(g) Provides that, in addition to the confidentiality protections under Section 823.011 (Confidentiality of Information):

(1) a filing required by Subsection (b) in the possession or control of the Texas Department of Insurance that is obtained by, created by, or disclosed to the commissioner or any other person, including the National Association of Insurance Commissioners, is recognized by this state as being proprietary and to contain trade secrets; and

(2) the commissioner and any other person, including the National Association of Insurance Commissioners, who receives a filing required by Subsection (b) are prohibited from testifying or being required to testify in any private civil action concerning that filing.

SECTION 2. Effective date: September 1, 2023.