

BILL ANALYSIS

H.B. 2839
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Insurance
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Liquidity demands can be unexpectedly placed on a life insurer that issues long-term cash-buildup products, particularly when cash and asset surrenders are experienced at greater-than-projected levels because of events experienced broadly in the economy. 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 the 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 developed a targeted liquidity stress test framework for large life insurers who write a significant amount of the products that could generate a large consumer demand for payout for purposes of capturing the effects of large-scale asset sales to meet this demand on the broader financial markets and prevent a liquidity event. A secondary goal of the liquidity stress test implementation is to enhance monitoring of large life insurers that are potentially vulnerable to liquidity stress. H.B. 2839 seeks to address this issue and 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, and by requiring the ultimate controlling person of an insurer to file the insurer's results of a specific year's liquidity stress test performed using that framework.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the commissioner of insurance in SECTION 1 of this bill.

ANALYSIS

H.B. 2839 amends the Insurance Code to require 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 by rule if Texas is the lead state of the insurer's group and the insurer or the insurer's group meets the scope criteria. The filing must be made on the reporting template for the relevant year adopted by the commissioner by rule.

H.B. 2839 authorizes the commissioner to exempt such an insurer from the filing requirement for a data year after consulting with other state insurance commissioners regarding the impact the exemption may have on the aggregation of liquidity stress test results filed by other insurers with those states. The bill requires the commissioner to take the following actions:

- adopt, by rule, a liquidity stress test framework, including scope criteria and reporting templates, consistent with the framework published by the National Association of Insurance Commissioners (NAIC) to facilitate the aggregation of results from the liquidity stress test filed with Texas and other states; and
- collect the filed stress test results and report them to NAIC in a manner that facilitates the aggregation of other insurers' results filed with this and other states.

The bill establishes that, in addition to the confidentiality protections of information under provisions relating to insurance holding company systems and to audits and examinations, a filing 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 NAIC, is recognized by the state as being proprietary and to contain trade secrets and that those entities or persons may not testify or be required to testify in any private civil action concerning that filing.

H.B. 2839 defines the following:

- "ultimate controlling person," by reference, as the person in an insurance holding company system who is not controlled by another person;
- "liquidity stress test framework" as an evidence-based analysis that aims to capture the impact on financial markets of aggregate asset sales of certain insurers under various liquidity stress scenarios; and
- "scope criteria" as the designated exposure bases, including minimum magnitudes of the bases for a specified data year, adopted by the commissioner by rule under the bill's provisions to establish a preliminary list of insurers included in the liquidity stress test framework for that data year.

EFFECTIVE DATE

September 1, 2023.