

1 SB314
2 127776-1
3 By Senator Blackwell
4 RFD: Banking and Insurance
5 First Read: 31-MAR-11

2
3
4
5
6
7
8 SYNOPSIS: Under existing law, a domestic insurer may
9 not be pecuniarily interested in certain investment
10 activities, and may maintain its principal place of
11 business outside of this state if it maintains a
12 complete duplicate set of records and keeps an
13 office in this state managed by one or more
14 officers of the insurer in this state.

15 This bill would provide certain exemptions
16 from pecuniary interests to certain officers or
17 directors, or members of a committee or employees
18 of a domestic insurer who are charged with the duty
19 of investing or handling the funds of the insurer.

20 This bill would require a domestic insurer
21 to maintain its assets in a financial institution
22 conducting business in this state.

23 This bill would allow domestic insurers to
24 deposit assets of the insurer outside this state
25 for purposes of safekeeping or for the convenient
26 operation of the insurer.

1 This bill would allow securities of an
2 insurer to be segregated or commingled with
3 securities owned by other insurers if the
4 arrangement is approved by the Commissioner of the
5 Department of Insurance.

6 This bill would allow a domestic insurer to
7 invest in securities or other investments located
8 in countries other than the United States or
9 Canada.

10 This bill would limit investments or loans
11 relating to an insurer's admitted assets.

12
13 A BILL
14 TO BE ENTITLED
15 AN ACT

16
17 To amend Sections 27-27-26, 27-27-29, as amended by
18 Act 2010-685, 2010 Regular Session (Acts 2010, p. 1655),
19 27-41-5, and 27-41-27, Code of Alabama 1975, to provide
20 certain exemptions to certain officers or directors, members
21 of a committee, or employees of a domestic insurer who are
22 charged with the duty of handling the funds of the insurer; to
23 require domestic insurers to maintain its assets in financial
24 institutions conducting business in this state; to allow
25 domestic insurers to deposit assets outside this state for
26 purposes of safekeeping or for the convenient operation of the
27 insurer; to allow securities of an insurer to be segregated or

1 commingled with securities owned by other insurers if the
2 arrangement is approved by the Commissioner of the Department
3 of Insurance; to allow a domestic insurer to invest in
4 securities or other investments located in countries other
5 than the United States or Canada; and to limit investments or
6 loans relating to an insurer's admitted assets.

7 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

8 Section 1. Sections 27-27-26, 27-27-29, as amended
9 by Act 2010-685, 2010 Regular Session (Acts 2010, p. 1655),
10 27-41-5, 27-41-27, and 27-41-35, Code of Alabama 1975, are
11 amended to read as follows:

12 "§27-27-26.

13 "(a) Any officer, or director, or any member of any
14 committee or any employee of a domestic insurer who is charged
15 with the duty of investing or handling the ~~insurer's~~ funds of
16 an insurer shall not do any of the following:

17 "(1) Deposit ~~deposit~~ or invest ~~such the~~ funds except
18 in the ~~insurer's~~ corporate name of the insurer; except, that
19 ~~such the~~ insurer may for its convenience hold any equity
20 investment in a street name or in the name of a nominee~~7.~~

21 "(2) Borrow ~~shall not borrow~~ the funds of ~~such the~~
22 insurer~~7.~~

23 "(3) Be ~~shall not be~~ pecuniarily interested in any
24 loan, pledge or deposit, security, investment, sale, purchase,
25 exchange, reinsurance, or other similar transaction or
26 property of ~~such the~~ insurer except as follows:

1 "a. A holder or owner of common stock or equity-like
2 preferred stock in any corporation or business entity trading
3 on a national or international stock exchange.

4 "b. A holder or owner of shares of mutual funds,
5 bond funds, or private equity funds registered with the United
6 States Securities and Exchange Commission.

7 "c. A holder or owner of bonds and other evidences
8 of indebtedness of governmental units in the United States or
9 Canada or private business entities domiciled in the United
10 States or Canada.

11 "d. A holder or owner of bonds and other evidences
12 of indebtedness of international development organizations of
13 which the United States is a member.

14 "e. A ~~a~~ stockholder or member and shall not take or
15 receive to his own use any fee, brokerage, commission, gift,
16 or other consideration for, or on account of, any such
17 transaction made by, or on behalf of, such insurer.

18 "(b) ~~No~~ An insurer ~~shall~~ may guarantee any financial
19 obligation of any of its officers or directors.

20 "(c) This section ~~shall~~ may not prohibit ~~such~~ a
21 director, or officer, or member of a committee or employee
22 from becoming a policyholder of the insurer and enjoying the
23 usual rights so provided for its policyholders, nor shall it
24 prohibit any ~~such~~ officer, director, or member of a committee
25 or employee from participating as beneficiary in any pension
26 trust, deferred compensation plan, profit-sharing plan, or
27 stock option plan authorized by the insurer and to which he or

1 she may be eligible, nor shall it prohibit any director or
2 member of a committee from receiving a reasonable fee for
3 legal services actually rendered to ~~such~~ insurer.

4 "(d) The commissioner may, by regulations from time
5 to time, define and permit additional exceptions to the
6 prohibition contained in subsection (a) of this section solely
7 to enable payment of reasonable compensation to a director who
8 is not otherwise an officer or employee of the insurer, or to
9 a corporation or firm in which a director is interested, for
10 necessary services performed or sales or purchases made to, or
11 for, the insurer in the ordinary course of the ~~insurer's~~
12 business of the insurer and in the usual private professional
13 or business capacity of ~~such the~~ director or ~~such the~~
14 corporation or firm.

15 "§27-27-29.

16 "(a) Every domestic insurer shall have, and
17 maintain, its principal place of business and home office in
18 this state and shall keep ~~therein~~ in this state complete
19 records of its assets, transactions, and affairs in accordance
20 with such methods and systems as are customary or suitable as
21 to the kind, or kinds, of insurance transacted.

22 "(b) Every domestic insurer shall have, and
23 maintain, its assets in this state, or in a financial
24 institution conducting business in this state except as to:

25 "(1) Real property and personal property appurtenant
26 ~~thereto~~ to the real property lawfully owned by the insurer and
27 located outside this state; ~~and.~~

1 "~~Such~~ The property of the insurer as may be
2 customary, necessary, and convenient to enable and facilitate
3 the operation of its branch offices and regional home offices
4 located outside this state as referred to in subsection (d).

5 "(3) Having, depositing, or transmitting funds and
6 assets of the insurer in, or to, a jurisdiction outside of
7 this state as required by the law of the jurisdiction or as
8 reasonably required in the course of its business, including
9 the retention of funds, assets, personal property, or
10 securities in a depository outside the State of Alabama for
11 purposes of safekeeping or for the convenient operation of the
12 insurer.

13 "(c) Removal of all, or a material part of, the
14 records or assets of a domestic insurer from this state except
15 pursuant to a plan of merger or consolidation approved by the
16 commissioner under this title, or for such reasonable purposes
17 and periods of time as may be approved by the commissioner in
18 writing in advance of ~~such~~ the removal, or concealment of ~~such~~
19 the records or assets, or material part ~~thereof~~ of the records
20 or assets, from the commissioner is prohibited. Any person who
21 removes, or attempts to remove, such records or assets, or
22 such material part ~~thereof~~ of the records or assets, from the
23 home office or other place of business or of safekeeping of
24 the insurer in this state with the intent to remove the ~~same~~
25 records or assets from this state or who conceals or attempts
26 to conceal the ~~same~~ records or assets from the commissioner,
27 in violation of this section, shall, upon conviction ~~thereof~~,

1 be guilty of a felony, punishable by a fine of not more than
2 ten thousand dollars (\$10,000), or by imprisonment in the
3 penitentiary for not more than five years, or by both ~~such the~~
4 fine and imprisonment in the discretion of the court. Upon any
5 removal or attempted removal of ~~such the~~ records or assets or
6 upon retention of ~~such the~~ records or assets, or material part
7 thereof, outside this state beyond the period therefor
8 specified in the ~~commissioner's~~ consent of the commissioner
9 under which the records were so removed thereat or upon
10 concealment of, or attempt to conceal, records or assets in
11 violation of this section, the commissioner may institute
12 delinquency proceedings against the insurer pursuant to the
13 provisions of Chapter 32 of this title.

14 "(d) This section ~~shall~~ may not be deemed to
15 prohibit or prevent an insurer from:

16 "(1) Establishing and maintaining branch offices or
17 regional home offices in other states where necessary or
18 convenient for the transaction of its business and keeping
19 therein the detailed records and assets customary and
20 necessary for the servicing of its insurance in force and
21 affairs in the territory served by such an office, as long as
22 such records and assets are made readily available at ~~such the~~
23 office for examination by the commissioner or at ~~the~~
24 ~~commissioner's~~ his or her request; ~~or.~~

25 "~~(2) Having, depositing, or transmitting funds and~~
26 ~~assets of the insurer in, or to, jurisdictions outside of this~~
27 ~~state required by the law of such jurisdiction or as~~

1 ~~reasonably and customarily required in the regular course of~~
2 ~~its business, including the retention of personal property or~~
3 ~~securities in a depository outside the State of Alabama for~~
4 ~~purposes of safekeeping or for the convenient operation of the~~
5 ~~insurer.~~

6 "(2) Using custodial arrangements for the holding of
7 securities owned by the insurer, either in or outside of this
8 state, and either segregated from or commingled with
9 securities owned by others, if the arrangements conform to
10 rules adopted by the commissioner for safeguarding the assets
11 and facilitating the examination by the commissioner of
12 insurers using the custodial arrangements.

13 "(e) With the written permission of the
14 commissioner, a domestic insurer may maintain its executive
15 offices outside the State of Alabama and keep there complete
16 records of its assets, transactions, and affairs in accordance
17 with the methods and systems as are customary or suitable for
18 the kind or kinds of insurance transacted. All records kept at
19 the executive offices outside Alabama shall be made available
20 to the commissioner of Alabama upon reasonable notice by the
21 commissioner.

22 "(f) This section shall not apply to those actions
23 taken by insurance companies prior to January 1, 1972, but
24 only applies to future actions of domestic insurance
25 companies.

1 "(g) Notwithstanding any other provision of this
2 section, any company may evidence ownership of its assets by
3 use of a clearing corporation or book-entry deposit system.

4 "§27-41-5.

5 "An insurer shall not make any investment or loan
6 exceeding 10 percent of the admitted assets of the insurer,
7 other than loans on policies or annuity contracts, unless ~~the~~
8 ~~same be~~ authorized, approved or ratified by the board of
9 directors of the insurer or by ~~such~~ the committee or person as
10 the board of directors shall expressly authorize. The action
11 of the board of directors, the committee, or other persons so
12 authorized shall be recorded and regular reports thereof shall
13 be submitted to the board of directors. This requisite shall
14 not apply to funeral supplies authorized for mutual aid
15 associations under Section 27-41-38 which are purchased in the
16 regular course of business under the general supervision of
17 the association's board of directors.

18 "§27-41-27.

19 ~~"An insurer authorized to transact insurance in a
20 foreign country may make investments, in an aggregate amount
21 not exceeding its obligations incurred in such country, in
22 securities of or in such country possessing characteristics
23 similar to like investments required pursuant to this chapter
24 for investments in the United States of America. Canadian
25 securities eligible for investment under other provisions of
26 this chapter are not subject to this section.~~

1 "(a) An insurer may invest in securities or other
2 investments (1) issued in, (2) located in, (3) denominated in
3 the currency of, (4) whose ultimate payment amounts of
4 principal or interest are subject to fluctuations in the
5 currency of, or (5) whose obligors are domiciled in countries
6 other than the United States or Canada, which are
7 substantially of the same kinds and classes as those
8 authorized for investment under this chapter.

9 "(b) Subject to the limitations in subsection (c) of
10 this section.

11 "(1) An investment of an insurer authorized under
12 subsection (a) of this section in any one foreign jurisdiction
13 whose sovereign debt has a 1 designation from the Securities
14 Valuation Office shall not exceed 10 percent of the admitted
15 assets of the insurer.

16 "(2) An investment of an insurer authorized under
17 subsection (a) of this section in any one foreign jurisdiction
18 whose sovereign debt has a 2 or 3 designation from the
19 Securities Valuation Office may not exceed five percent of the
20 admitted assets of the insurer.

21 "(3) An investment of an insurer authorized under
22 subsection (a) of this section in any one foreign jurisdiction
23 whose sovereign debt has a 4, 5, or 6 designation from the
24 Securities Valuation Office may not exceed three percent of
25 the admitted assets of the insurer.

26 "(4) An investment of an insurer authorized under
27 subsection (a) of this section denominated in any one foreign

1 currency may not exceed two percent of the admitted assets of
2 the insurer.

3 "(5) An investment of an insurer authorized under
4 subsection (a) of this section denominated in foreign
5 currencies may not exceed, in the aggregate, five percent of
6 the admitted assets of the insurer.

7 "(6) An investment of an insurer authorized under
8 subsection (a) of this section may not be considered
9 denominated in a foreign currency if the acquiring insurer
10 enters into one or more contracts in permitted transactions to
11 exchange all payments made on the foreign currency denominated
12 investment for United States currency at a rate which
13 effectively insulates the investment cash flow against future
14 changes in currency exchange rates during the period the
15 contract or contracts are in effect.

16 "(c) An investment of an insurer authorized under
17 subsection (a) of this section may not exceed, in the
18 aggregate, 20 percent of its admitted assets.

19 "(7) The Securities Valuation Office (SVO) or its
20 successor or interest means the National Association of
21 Insurance Commissioners office that is responsible for the
22 day-to-day credit quality assessment and valuation of
23 securities owned by state regulated insurance companies.

24 "(d) An insurer which is authorized to do business
25 in a foreign country or which has outstanding insurance,
26 annuity, or reinsurance contracts on lives or risks resident
27 in or located in a foreign country may, in addition to the

1 investments authorized by subsection (a) of this section,
2 invest securities and investments (1) issued in, (2) located
3 in, (3) denominated in the currency of, (4) whose ultimate
4 payment amounts of principal and interest are subject to
5 fluctuations in the currency of, or (5) whose obligors are
6 domiciled in the foreign countries which are substantially of
7 the same kinds and classes as those authorized for investment
8 under this chapter.

9 "(e) An investment of an insurer authorized under
10 subsection (d) of this section and cash in the currency of the
11 country which is at any time held by the insurer, may not
12 exceed, in the aggregate, the greater of (1) one and one-half
13 times the amount of its reserves and other obligations under
14 the contracts or (2) the amount which the insurer is required
15 by law to invest in the country."

16 Section 2. This act shall become effective
17 immediately following its passage and approval by the
18 Governor, or its otherwise becoming law.