

MINUTES OF THE MEETING
BUSINESS & INDUSTRY COMMITTEE
MONTANA STATE SENATE

March 19, 1979

The meeting of the Business and Industry Committee was called to order by Chairman Frank Hazelbaker on the above date in Room 404 of the State Capitol Building at 10:00 a.m.

ROLL CALL: All members were present with the exception of Senator Dover and Senator Peterson who were excused.

HOUSE BILL 887: Representative John Scully, sponsor of HB 887, explained the bill to the Committee. This bill generally revises the laws relating to the regulation of insurance companies. Under the bill, real estate is allowed as part of a reserve deposit.

Representative Scully distributed some proposed amendments to House Bill 887. These proposed amendments are attached to the minutes. Representative Scully told the Committee that these amendments are definitely necessary.

PROPOSERS OF HOUSE BILL 887: Mr. Herb Richards from Bozeman, Montana, representing Life of Montana Insurance Co., stated they are in support of HB 887. Mr. Richards told the Committee that two other insurance companies in Montana also support the bill. They are Glacier Life of Bozeman, Montana, and Montana National Life of Billings, Montana.

OPPOSERS OF HOUSE BILL 887: Mr. Terry Meagher from the Insurance Department, stated they oppose the original bill. They do, however, support the amendments which Mr. Scully distributed to the Committee. Mr. Meagher suggested another amendment for language clarification. This amendment is on page 13, line 5 of the proposed amendments-- following "of" insert "all". Mr. Meagher stated that with the amendments the Insurance Department would have no further objection to the bill.

Mr. Les Loble, II, of Helena, Montana, representing the American Council of Life Insurance, stated they oppose HB 887.

Senator Mike Anderson, representing himself, stated he is neither an opponent nor a proponent of the bill. He told the Committee that most of the states where the major insurance companies are located have some very liberal language on the books. He stated there is a critical need for the product to be liquid. Currently we have a good real estate market, but if there is a tightening up of the market, there may be some problems.

Mr. Ed Sheehy, Jr. of Helena, Montana, representing the Montana Association of Life Underwriters, stated they are in opposition to House Bill 887. Their concern in this bill is not only

investments, but also the reserve requirements for domestic insurers. Mr. Sheehy stated that another matter that should be considered is the question on how this bill was handled in the House. He further stated that if this bill were to be enacted there may be some question of right of participation. He told the Committee it might be worthwhile considering holding this bill until the next legislative session.

Representative Scully made closing remarks to the Committee. He stated that he felt the bill was enacted properly in the House. He told the Committee that land and precious metals have been the best investments lately. He hoped that the Committee would act favorably on the bill.

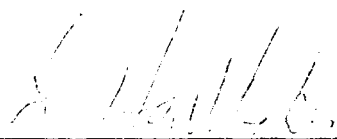
There was a question and answer period from the Committee. Chairman Hazelbaker asked Mr. Pyfer if it would be possible to have the proposed amendments plugged into the bill so the Committee could study it more easily. Mr. Pyfer stated that this would be possible and he would try to see that it was ready for the meeting on Tuesday, March 20.

Chairman Hazelbaker asked Mr. Meagher if the Insurance Department was in support of the amendments. Mr. Meagher stated that the Department was in support of the amendments.

Senator Goodover questioned the amendment on page 19, line 7, which goes back to the original 10%. Mr. Meagher stated it had been proofed with the original code.

There were no other questions. Chairman Hazelbaker closed the hearing on HB 887.

ADJOURN: There being no further business, the meeting adjourned at 10:40 a.m.



Senator Frank Hazelbaker, Chairman

ME: Art Richards DATE: 3-19-79

ADDRESS: 415 So Willson

PHONE: 587-0100

REPRESENTING WHOM? Life of Montana Ins Co

APPEARING ON WHICH PROPOSAL: HB 887

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

AMENDMENTS TO HB 887

Title, lines 4 through 8

Following: "AN ACT TO"

Strike: remainder of lines 4 through 8 in their entirety

Insert: "REVISE CERTAIN LAWS RELATING TO THE REGULATION OF INSURANCE COMPANIES; AMENDING SECTIONS 33-2-501; 33-2-531; 33-2-822; 33-2-830; AND 33-2-832, M.C.A.

Page 4, lines 2 through 5

Strike: Subsection (11) in its entirety

Insert: (11) electronic data processing equipment if the cost of such equipment is at least \$100,000, which cost shall be amortized in full over a period of not to exceed ten calendar years; provided further, however, with regard to life insurers, that such equipment shall be allowed as an asset if the cost of such equipment is at least \$25,000, which cost shall be amortized in full over a period of not to exceed five calendar years, and provided that in this latter case the amount of such asset allowed shall not exceed one percent of the total of the other allowable assets of the insurer;

Page 4, lines 6 through 19

Strike: Subsection 12 in its entirety

ReNUMBER: Subsections (13) and (14) as subsections (12) and (13)

Page 4, line 20

Strike: Section 2 in its entirety

ReNUMBER: All subsequent sections

Page 7, line 2

Strike: the period following the word "chapter" plus the balance of subsection 4 in its entirety

Insert: , except that securities acquired under 33-2-829 shall not be eligible for deposit.

Page 7, line 16

Strike: line 16

Insert: (5) Real estate mortgage loans, chattel

Page 7, line 22

Insert: Additional sentence, in place of stricken sentence, as follows:
If the insurer uses real estate acquired under Section 33-2-832 as a deposit, then a deed of trust, mortgage, or other instrument sufficient to convey a security interest in such real estate, in a form acceptable to the commissioner, shall be completed in due form and recorded prior to being deposited with the commissioner.

Page 8, line 6

Strike: Section 4 in its entirety

ReNUMBER: All subsequent sections

Page 9, line 5

Strike: Section 5 in its entirety

ReNUMBER: All subsequent sections

Page 11, line 7

Strike: Section 6 in its entirety

Renumber: All subsequent sections

Page 11, line 25

Strike: Section 7 in its entirety

Renumber: All subsequent sections

Page 13, line 2

Strike: lines 2, 3 and 4 in their entirety

Insert: purposes of this section, a "subsidiary" is a corporation in which the insurer owns a majority of the outstanding shares of voting stock.

Page 13, line 5

Strike: Section 9 in its entirety

Renumber: All subsequent sections

Page 15, line 6

Strike: " , or improvements under construction ,

Page 15, line 8

Following: "situated."

Strike: Rest of line 8 and lines 9 through 14

Page 16, line 12

Strike: Subsection (5) in its entirety

Insert: (5) No such mortgage loan made or acquired by an insurer which is a participation or a part of a series or issue secured by the same mortgage or deed of trust shall be a lawful investment under this section unless the entire series or issue which is secured by the same mortgage or deed of trust is held by such insurer or unless the insurer holds a senior participation in such mortgage or deed of trust, giving it substantially the rights of a first mortgagee.

Page 18, line 21

Following: "otherwise"

Strike: line 21 through "therefor" on line 2 on page 19

Insert: "other than real estate to be used primarily for agricultural, ranch, mining, development of oil or mineral resources, recreational, amusement, or club purposes, acquired as an investment for the production of income or acquired to be improved or developed for such investment purposes pursuant to an existing program therefor."

Page 19, line 7

Strike: 15%

Following: "exceeding"

Insert: 5%

Following: "exceeding"

Page 19, line 21

Strike: 25%

Following: "exceed"

Insert: 10%

Following: "exceed"

MEMORANDUM TO WHOM IT MAY CONCERN

FROM LIFE OF MONTANA INSURANCE COMPANY

March 14, 1979

IN RE: HB 887 Amendments

After giving effect to the proposed amendments to HB 887, it will have the effect of making the following changes in the Montana Insurance Code:

1. Electronic data processing equipment is slightly redefined and will be an admissible asset if the total investment therein by a life insurer is at least \$25,000 or by a casualty insurer is at least \$100,000; but with regard to a life insurer with an overall limit on the amount of such investment in electronic data processing equipment which is admissible as an asset of 1% of the total of all other admissible assets and further with the provision that the equipment purchased be depreciated over a life of not more than five years.
2. Two changes are made to Section 33-2-531 which relates to the requirement that domestic life insurers deposit 100% of their reserves with the commissioner, as follows:
 - A. All admissible assets are now to be acceptable for deposit, and at the same value as that at which they are admissible, with the sole exception remaining being that assets acquired under Section 33-2-829 relating to "miscellaneous investments" will still not be acceptable for deposit under Section 33-2-531.
 - B. If real estate is to be deposited, it will now be possible to accomplish this by conveying to the commissioner his security interest in the property by means of any legal instrument which is acceptable to him. (Prior law permitted the use of only a deed of trust.)
3. Two changes will be made in Section 33-2-822 relating to investment in stocks of subsidiaries, as follows:
 - A. The term "subsidiary" now will be defined as a corporation in which a majority of both the outstanding stock and the voting power is held (prior law required it to be wholly-owned).
 - B. The limitation on investments under this section will be 10% of the investing insurer's admissible assets (present law defines the limit as the total amount of the investing insurer's surplus).
4. Insurers will be permitted to lend, on the security of mortgages or contracts for deed, up to 90% of the appraised value of single-family or two-family residential property and up to 80% of the appraised value of all other property (present limits are 75% and 66 2/3% respectively).

The following changes which appeared in HB 887 as introduced have, at the request of the insurance commissioner, been deleted by means of the amendments proposed:

1. Inclusion in the definition of admissible assets of the insurer's investment in furniture and equipment necessary for the conduct of its business with a limit of 1% of otherwise admissible assets.
2. A specific provision permitting an insurer to acquire its own shares for the purpose of retiring such shares (this may be permissible under present law but it is unclear, in our view).
3. Deletion of a 20%-of-admissible-assets limit on the company's investment in securities classified as "industrial and miscellaneous".
4. Removal of the present requirement that a common stock have a five-year dividend history before it is a permissible investment for an insurer and the substitution therefor of a "prudent investment" requirement.
5. Separation of investments in insurance stocks and stocks of subsidiaries into separate categories for limitation purposes, each with its own 10%-of-admissible-assets limit.
6. The use of the term "effective control" in defining the term "subsidiary" (this is being changed to a "majority control" type of definition).
7. A rewrite of Section 33-2-829 relating to "miscellaneous investments".
8. An expansion of the definition of "improved real estate" in which an investor may invest its funds so that the definition would include improvements under construction (rather than improvements already completed) and so that improvements could be made on one parcel of land which benefited a development project on another parcel which abutted the first parcel.
9. Deletion of the wording in the present law which effectively prohibits an insurer from investing in mortgage loan participations (this change would have permitted an insurer to join with other financial institutions in financing improvement projects of such size that the insurer itself, by operation of law or just good business judgment, would not be able to make the entire loan).
10. Removal of the prohibition in present law against the acquisition as real estate held for investment by an insurer of "real estate to be used primarily for agricultural, ranch, mining, development of ore or mineral resources, recreational, amusement, or club purposes".
11. An increase in the limitation on permissible investments in the category of "real estate acquired for investment" from 5% of assets to 15% of assets.
12. An increase in the overall limit on all types of real estate holdings from 10% of assets to 25% of assets.

NAME: Les Loble II DATE: 3-19-79

ADDRESS: 916 Power Helena

PHONE: 442 6807

REPRESENTING WHOM? Am. Council of Life Insurance

APPEARING ON WHICH PROPOSAL: HB 887

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: Charles W. Lawrence DATE: 2/11/79

ADDRESS: Box 1749 Piquette, Mich 49755

PHONE: 616 527-4754

REPRESENTING WHOM? Self

APPEARING ON WHICH PROPOSAL: HR 889

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS:

*This bill sets the minimum for
insurance companies. I am
due to the state of Michigan
to recommend some changes
to such as...
peak states & common state...
of 20-25% of...
[Signature]*

NAME: Ed Sheehy, Jr. DATE: 3/19/79

ADDRESS: ~~#~~ 2031 11th Ave Helena

PHONE: 447-9930

REPRESENTING WHOM? Mont. Assoc. of Life Underwrit

APPEARING ON WHICH PROPOSAL: HR 887

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: _____ DATE: _____

ADDRESS: _____

PHONE: _____

REPRESENTING WHOM? _____

APPEARING ON WHICH PROPOSAL: _____

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? _____

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

