

17B:20-2

LEGISLATIVE HISTORY CHECKLIST

NJSA: 17B:20-2 (Insurance companies-- life and health-- ease restrictions on authorized investments)

CHAPTER 60

Laws Of: 1987

Bill No: S2139

Sponsor(s): O'Connor

Date Introduced: May 12, 1986

Committee: Assembly: Insurance

Senate: Labor, Industry and Professions

Amended during passage: No

Date of Passage: Assembly: February 5, 1987

Senate: October 20, 1986

Date of Approval: March 10, 1987

Following statements are attached if available:

Sponsor statement: Yes

Committee statement: Assembly Yes

Senate Yes

Fiscal Note: No

Veto Message: No

Message on Signing: No

Following were printed:

Reports: No

Hearings: No

SENATE, No. 2139
STATE OF NEW JERSEY

INTRODUCED MAY 12, 1986

By Senator O'CONNOR

Referred to Committee on Labor, Industry and Professions

AN ACT concerning investments of certain domestic insurers and
amending N. J. S. 17B:20-2 and N. J. S. 17B:20-4.

1 BE IT ENACTED by the Senate and General Assembly of the State
2 of New Jersey:

1 1. N. J. S. 17B:20-2 is amended to read as follows:

2 17B:20-2. **[No domestic insurer shall purchase more than 8%**
3 **of the voting stock of any one corporation, unless it be: a municipal**
4 **corporation; a subsidiary of such insurer pursuant to section**
5 **17B:20-4; or an investment company within the meaning of the**
6 **Investment Company Act of 1940 for which such insurer or its**
7 **subsidiary is the investment manager or investment adviser, pro-**
8 **vided, that such investment company shall not own, control or hold**
9 **in its portfolio any investment which, if added to the other invest-**
10 **ments of such insurer, would result in such insurer holding more**
11 **than 8% of the voting stock of any one corporation. The term**
12 **"voting stock" of any corporation shall mean any shares of capital**
13 **stock of such corporation having general voting power under ordi-**
14 **nary circumstances, when voting (together with one or more other**
15 **classes, if any) as a class, to elect a majority of the board of di-**
16 **rectors of such corporation irrespective of whether or not at the**
17 **time stock of any other class or classes shall have, or might have**
18 **voting power by reason of the happening of any contingency. No**
19 **such insurer shall hold more than 8% of any such class of stock**
20 **of any investment company pursuant to this section at any time**
21 **when such insurer could not purchase such stock pursuant to the**
22 **foregoing provisions of this section.] The amount (excluding**

EXPLANATION—Matter enclosed in bold-faced brackets [italics] in the above bill
is not enacted and is intended to be omitted in the law.

Matter printed in italics thus is new matter.

23 amounts invested in the common stock of any corporation pursuant
24 to sections 17B:20-3 and 17B:20-4) invested by a domestic in-
25 surer (a) in the common stock of any one corporation shall not
26 exceed 2% of the total admitted assets of such insurer as of De-
27 cember 31 next preceding, or (b) in the common stock of all corpo-
28 rations valued at cost shall not exceed 15% of such assets except
29 that to the extent that such aggregate investment in common stock
30 exceeds 10% of such assets, further investments shall be subject to
31 regulation by the commissioner under a formula which shall take
32 into consideration the actual mandatory securities valuation re-
33 serve, as defined by the Subcommittee on Valuation of Securities of
34 the National Association of Insurance Commissioners, held by a
35 company which is applicable to such common stocks in the corre-
36 sponding annual statement filed with the department. The term
37 "common stock" shall mean any voting stock of any class of a cor-
38 poration which shall not be limited to a fixed sum or percentage of
39 par value in respect to the rights of the holders hereof to partici-
40 pate in dividends or in the distribution of assets upon the voluntary
41 or involuntary liquidation, dissolution or winding up of the corpo-
42 ration. Neither shall the amount invested in the beneficial shares
43 or other ownership interests (other than common stock), evidences
44 of indebtedness (excluding amounts invested in mortgage loans
45 pursuant to subsection c. of section 17B:20-1), preferred stock and
46 certificates of receivers of any one institution exceed 5% of such
47 assets of the insurer. Nothing herein contained shall prevent any
48 such insurer from purchasing, or in any other way acquiring the
49 voting stock of, or otherwise investing in certain corporations as
50 hereinafter provided in section 17B:20-3 and 17B:20-4.

51 The total amount of admitted assets invested in the types of
52 investments authorized by subsections b. and c. of N. J. S. 17B:20-1
53 shall not, in the aggregate, exceed 60% of the domestic insurer's
54 total admitted assets.

55 All investments made by any such insurer shall be authorized
56 or approved by the board of directors, or by a committee thereof
57 charged with the duty of supervising such investment, or shall be
58 made in conformity with standards approved by such board of
59 directors or such committee.

60 No such insurer shall enter into any agreement to withhold from
61 sale any of its property or jointly or severally enter into any
62 agreement to purchase the unsold amount of securities which are
63 the subject of an offering for sale to the public or otherwise to
64 guarantee the sale of such securities.

65 Nothing contained in this section shall prevent any such insurer
66 from distributing shares of an investment company within the
67 meaning of the Investment Company Act of 1940 for which such
68 insurer or its subsidiary is the investment manager or investment
69 adviser.

70 The term "Investment Company Act of 1940" as used in this
71 section shall mean an act of Congress [approved August 22, 1940]
72 entitled "Investment Company Act of 1940," 54 Stat. 847 (15
73 U. S. C. 80a-1 et seq.) as amended from time to time, or any
74 similar statute enacted in substitution therefor.

1 2. N. J. S. 17B:20-4 is amended to read as follows:

2 17B:20-4. In addition to the authority expressly contained in this
3 chapter and notwithstanding any limitation contained in this Title,
4 any domestic insurer may invest in the voting stock of one or more
5 subsidiaries, as provided in this section.

6 a. As used in this section the following terms shall have the
7 following meanings: (1) "voting stock" as used with reference
8 to any corporation means any shares of capital stock of such cor-
9 poration having general voting power under ordinary circum-
10 stances, when voting (together with one or more other classes,
11 if any) as a class, to elect a majority of the board of directors
12 of such corporation irrespective of whether or not at the time
13 stock of any other class or classes shall have, or might have,
14 voting power by reason of the happening of any contingency, and
15 shall also include voting trust certificates, certificates of deposit,
16 interim receipts and other similar instruments representing such
17 stock and (2) "subsidiary" means a corporation of which a ma-
18 jority of the voting stock is owned or controlled by a domestic
19 insurer, or by one or more subsidiaries of such insurer or by such
20 insurer and one or more subsidiaries of such insurer, except that
21 "subsidiary" shall not include a corporation of which a majority
22 of the voting stock is acquired by the insurer or its subsidiaries
23 pursuant to any other section of this chapter.

24 b. The business of a subsidiary, whether or not it is orga-
25 nized under the laws of this State, shall be limited to that au-
26 thorized for a corporation organized under any law of this State,
27 except that "subsidiary" shall not include any bank organized
28 pursuant to the laws of this State and shall not include any na-
29 tional bank maintaining its principal office in this State.

30 c. Except as otherwise specifically permitted by this section,
31 no investment in the voting stock of any subsidiary shall be re-
32 tained by a domestic insurer or by any of its subsidiaries unless
33 a majority of the voting stock of such subsidiary is owned or con-

34 trolled by such insurer or by one or more subsidiaries of such
35 insurer or by such insurer and one or more subsidiaries of such
36 insurer.

37 d. The investments of any such subsidiary of the kinds per-
38 mitted by subsection b., c., d. or e. of section 17B:20-1, except
39 a subsidiary engaged primarily in any kind of insurance busi-
40 ness, when added, on a basis proportional to the insurer's interest
41 in such subsidiary, to the investments of such insurer (referred
42 to herein as the "controlling insurer") shall not cause the in-
43 vestments of the controlling insurer to exceed any of the limita-
44 tions applicable to domestic insurers contained therein or in sec-
45 tion 17B:20-2 of this chapter except as may be permitted by sec-
46 tion 17B:20-1h or section 17B:20-3; provided that investments
47 by any subsidiary which if made by the controlling insurer would
48 be subject to the limitations of section 17B:20-1b shall not be
49 included to the extent the controlling insurer's investment in the
50 capital stock of such subsidiary is subject to the limitations of
51 section 17B:20-1b; and provided further that the limitation upon
52 the percentage of voting stock of any one corporation that may
53 be purchased or acquired by a domestic insurer set forth in
54 section 17B:20-2 shall apply with respect to the aggregate of the
55 voting stock of any one corporation held by the controlling in-
56 surer and all of its subsidiaries, including any insurance subsidi-
57 aries]. Notwithstanding the foregoing limitations of this subsec-
58 tion d., any such subsidiary shall be permitted to invest in the
59 voting stock of one or more other corporations if:

60 (1) After such investment, such subsidiary, the controlling
61 insurer and all other subsidiaries of the controlling insurer
62 shall own a majority of the voting stock of such other corpora-
63 tion and such other corporation would, within the meaning
64 of this section, constitute a permitted subsidiary of the con-
65 trolling insurer, or

66 (2) The proportion of such investment attributable to the
67 controlling insurer pursuant to this subsection d. could then
68 have been made in the same manner by the controlling in-
69 surer under any other provision of this chapter.

70 e. The investment in such subsidiary shall not tend substan-
71 tially to lessen competition or tend to create a monopoly.

72 f. Such subsidiary shall not be used directly or indirectly to
73 promote the private interests of any officer or director of such
74 insurer except that compensation may be paid by any subsidiary
75 to officers and directors of such insurer for services rendered
76 when such compensation is authorized by the board of directors

77 of such subsidiary and approved by the board of directors of such
78 insurer.

79 g. The aggregate amount invested by the controlling insurer
80 in the voting stock of all subsidiaries pursuant to this section to-
81 gether with the aggregate amount of all other investments of the
82 controlling insurer in such subsidiaries, valued at cost (less any
83 amount invested by the controlling insurer and such subsidiaries
84 in any subsidiary engaged in a business primarily involving the
85 owning, improving, developing, operating or leasing of real estate)
86 shall not exceed 5%, or with the approval of the commissioner
87 10%, of the total admitted assets of such insurer as of December
88 31 next preceding.

89 h. No investment in voting stock of any subsidiary shall be
90 made by such insurer or any subsidiary thereof pursuant to this
91 section unless a notice of intention to make such proposed invest-
92 ment is filed with the commissioner not less than 30 days, or
93 such shorter period as may be permitted by the commissioner, in
94 advance of such proposed investment, nor shall any such invest-
95 ment be made if the commissioner at any time prior thereto finds
96 that the proposed investment does not meet the requirements of
97 this section or determines, in his sole discretion, that such pro-
98 posed investment would be contrary to the best interests of policy-
99 holders or the public; provided, that after an investment in
100 voting stock has been made pursuant to this section, no notice of
101 intention to make further investments in the voting stock or
102 other securities of the same subsidiary shall be required, and such
103 further investments may be made subject to the limitations con-
104 tained in subsection d. and subsection g. of this section. The
105 commissioner shall have the power to conduct periodic examina-
106 tions and require reports in connection with the operation of sub-
107 sidiaries and, if he shall determine either that the interests of
108 policyholders or the public so requires or that the investments of
109 any subsidiary do not comply with the requirements of this sec-
110 tion, to order that a domestic insurer or any subsidiary thereof
111 dispose of its investment in any subsidiary or that any subsidiary
112 dispose of any noncomplying investments, in each case within a
113 reasonable period of time.

114 i. In addition to the authority contained in the preceding sub-
115 sections of this section, a domestic insurer and its subsidiaries may
116 invest in and retain more than 8% but less than a majority of the
117 voting stock of any alien corporation engaged in any kind of in-
118 surance business or in a business of providing services of a kind
119 the domestic insurer might itself perform independently of any

120 insurance or annuity contract; provided that no such investment
121 shall be made unless notice of intention to make such proposed
122 investment is filed as provided in subsection h. of this section. A
123 domestic insurer may retain less than a majority of the voting
124 stock of any such alien corporation originally acquired as a majority
125 owned subsidiary pursuant to this section without further notice
126 under subsection h. of this section. For the purposes of this section
127 the term "subsidiary" shall include any such alien corporation
128 of which more than 8% of the voting stock is acquired pursuant to
129 this section and is owned or controlled as provided in subsection a.,
130 except that subsection d. shall not apply to any such subsidiary of
131 which less than a majority of the voting stock is so owned or
132 controlled.

1 3. This act shall take effect immediately.

STATEMENT

This bill eliminates the current restriction on the authorized investments of domestic life and health insurers that prohibits these insurers from purchasing more than 8% of the voting stock of any one corporation.

Corporate investments would remain subject to a 2% of assets limitation on investments in any one corporation and a 15% of assets limitation on all corporate stock owned.

INSURANCE—HEALTH AND LIFE

Eliminates one of the restrictions on authorized investments by domestic life and health insurers.

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121 shall be made unless notice of intention to make such proposed
122 investment is filed as provided in subsection h. of this section. A
123 domestic insurer may retain less than a majority of the voting
124 stock of any such alien corporation originally acquired as a majority
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128 of which more than 8% of the voting stock is acquired pursuant to
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INSURANCE—HEALTH AND LIFE

Eliminates one of the restrictions on authorized investments by domestic life and health insurers.

ASSEMBLY INSURANCE COMMITTEE

STATEMENT TO

SENATE, No. 2139

STATE OF NEW JERSEY

DATED: JANUARY 12, 1987

This bill eliminates one of the limitations on the amount of common stock of a corporation (other than the stock of a subsidiary, an investment company, or a municipal corporation) which can be purchased by a domestic life or health insurer. At present, insurers may not purchase more than 8% of the voting stock of any one corporation, nor can the stock purchased in any one corporation exceed 2% of the total admitted assets of the insurer as of the end of the preceding calendar year. The bill eliminates the 8% limitation, but the 2% limitation would remain. Thus, an insurer could buy a substantial portion of another corporation as long as the value of the stock did not exceed 2% of its admitted assets. Insurers would continue to be limited in the aggregate amount which they would be permitted to invest in common stock generally; these investments could not exceed 15% of their admitted assets.

The purpose of this legislation is to provide greater flexibility for domestic insurers with respect to their investments. New Jersey's limitation of 8% on stock investments in any one corporation is similar to one which previously existed in New York; in that case, the limitation was 5%. The New York limitation was abolished in 1983 after the Heimann Commission found that it had a "negative impact" on the investment practices of domestic insurers.

Proponents of the bill suggest that while the 8% limitation on holdings in any one corporation was originally established for reasons of safety and soundness, the limitation is, in fact, not relevant to the safety or liquidity of investments. A life insurer with substantial assets could, for example, purchase less than 1% of the voting stock of a major corporation for \$100 million, but not 9% of a start-up corporation whose stock sells for \$5.00 a share.

SENATE LABOR, INDUSTRY AND PROFESSIONS
COMMITTEE

STATEMENT TO

SENATE, No. 2139

STATE OF NEW JERSEY

DATED: AUGUST 26, 1986

This bill eliminates one of the current restrictions on the authorized investments of domestic life and health insurers that prohibits these insurers from purchasing more than 8% of the voting stock of any one corporation.

Investments in common stock by these insurers would continue to be restricted by current law which prohibits an insurer from investing (a) in the common stock of any one corporation in excess of 2% of the total admitted assets of that insurer and (b) in the common stock of all corporations, valued at cost, in excess of 15% the total admitted assets of that insurer.