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IS 5/23/08

P.L. 2007, CHAPTER 252, *approved January 4, 2008*  
Assembly, No. 3289 (*First Reprint*)

1 An Act concerning investments by certain domestic insurance  
2 companies **'[and] ,'** amending **'R.S.17:24-1 and supplementing**  
3 **chapter 24 of Title 17 of the Revised Statutes**<sup>1</sup>.  
4

5 **BE IT ENACTED** by the Senate and General Assembly of the State  
6 of New Jersey:  
7

8 1. R.S.17:24-1 is amended to read as follows:

9 R.S.17:24-1. Any insurance company of this State for the  
10 purpose of investing its capital, surplus and other funds, or any part  
11 thereof, may:

12 a. Purchase or hold as collateral security or otherwise and sell  
13 and transfer any bonds or public stock issued, created or guaranteed  
14 by the United States, or any territory or insular possession thereof,  
15 or the Commonwealth of Puerto Rico, or by this State, or by any of  
16 the other states of the United States or the District of Columbia, or  
17 by Canada or any of the provinces thereof, or by any of the  
18 incorporated cities, counties, parishes, townships or other municipal  
19 corporations situated in any of the places hereinabove mentioned; or  
20 bonds authorized to be issued by any commission appointed by the  
21 Supreme Court of this State as the said court was constituted prior  
22 to September 15, 1948.

23 b. Purchase or hold real estate for business or residential  
24 purposes **[( ) ,** other than as provided for in **[sections] R.S.17:19-8**  
25 **to 17:19-12, inclusive, [of this Title)]** as an investment for the  
26 production of income, and improve or otherwise develop such real  
27 estate; provided, that if the commissioner shall determine, after due  
28 hearing upon notice to any such insurance company, that the  
29 interests of such insurance company's policyholders require that any  
30 specified real estate so purchased or held be disposed of, then such  
31 insurance company shall dispose of such real estate within such  
32 reasonable time as the commissioner shall direct; and provided  
33 further, the aggregate amount of such investments for the  
34 production of income, but excluding real estate held as provided for  
35 in **[said sections] R.S.17:19-8 to 17:19-12, inclusive,** shall not  
36 exceed 5% of the total admitted assets of such insurance company  
37 as of December 31 next preceding. The term "real estate for  
38 business or residential purposes" as used in this subsection b. shall  
39 include any real property used or operated as a part of or in  
40 connection with a business or a residential development, and shall

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

**Matter underlined thus is new matter.**

**Matter enclosed in superscript numerals has been adopted as follows:**

<sup>1</sup>Assembly AFI committee amendments adopted June 14, 2007.

1 also include a leasehold of such real estate having an unexpired  
2 term of not less than 20 years, inclusive of the term or terms which  
3 may be provided by any enforceable option or options of extension  
4 or of renewal. Income produced by investment in any such  
5 leasehold shall be applied by such insurance company in a manner  
6 calculated to amortize the amount invested for acquisition and  
7 improvement thereof within a period not exceeding 8/10 of such  
8 unexpired term of the leasehold following such acquisition or  
9 improvement, or within a period of 40 years thereafter, whichever is  
10 less.

11 c. Invest in bonds or notes secured by mortgages or trust deeds  
12 on unencumbered fee simple or leasehold real estate, which shall  
13 include areas above the surface of the ground but not contiguous  
14 thereto, or any interest therein, located within the United States, any  
15 territory or insular possession thereof, the Commonwealth of Puerto  
16 Rico, or Canada, worth at least 1/3 more than the sum so invested.  
17 No loan may be made on leasehold real estate unless the terms of  
18 such loan provide for amortization payments to be made by the  
19 borrower on the principal thereof in amounts sufficient to  
20 completely amortize the loan within a period not exceeding 9/10 of  
21 the term of the leasehold, inclusive of the term or terms which may  
22 be provided by any enforceable option or options of extension or of  
23 renewal, which is unexpired at the time the loan is made. For the  
24 purpose of this subsection c., fee simple or leasehold real estate or  
25 any interest therein shall not be deemed to be encumbered within  
26 the meaning of this subsection c. by reason of the existence of taxes  
27 or assessments that are not delinquent, easements, profits or  
28 licenses, nor by reason of building restrictions or other restrictive  
29 covenants, nor when such real estate or interest therein is subject to  
30 lease in whole or in part whereby rents or profits are reserved to the  
31 owner; provided, that the security created by the mortgage or trust  
32 deed on such real estate or interest therein securing such bond or  
33 note is a first lien upon such real estate or interest therein. No  
34 insurance company shall, pursuant to this subsection c., invest in or  
35 loan upon the security of any one property more than **[\$30,000.00]**  
36 \$30,000 or more than 2% of its total admitted assets, whichever is  
37 the greater. The total investments of any insurance company made  
38 pursuant to this subsection c. shall not exceed 40% of its total  
39 admitted assets.

40 d. Invest in bonds or notes evidencing loans to veterans if the  
41 full amount of any such loan is guaranteed by the government of the  
42 United States or by the Administrator of Veterans' Affairs pursuant  
43 to the "Servicemen's Readjustment Act of 1944," Pub.L.78-346 (38  
44 U.S.C. s.3701 et seq.), as heretofore or hereafter amended; and in  
45 the case of loans so guaranteed for less than the full amount thereof,  
46 the maximum amount which may be loaned or invested by any such  
47 insurance company pursuant to the provisions of any law of this  
48 State shall be increased by the amount so guaranteed.

1 e. Lend on or purchase mortgage or collateral trust bonds of  
2 railroad companies organized under the laws of said states, or the  
3 District of Columbia, or the Commonwealth of Puerto Rico, or  
4 Canada or any province thereof, or operated wholly or partly  
5 therein; or equipment trust certificates or obligations which are  
6 adequately secured or other adequately secured instruments  
7 evidencing an interest in transportation or municipal sanitation  
8 equipment wholly or in part within the United States or any  
9 territory or insular possession thereof, the Commonwealth of Puerto  
10 Rico or Canada and a right to receive determined portions of rental,  
11 purchase or other fixed obligatory payments for the use or purchase  
12 of such equipment; or certificates of receivers of any corporation  
13 where such purchase is necessary to protect an investment in the  
14 securities of such corporation theretofore made under authority of  
15 chapters 17 to 33, inclusive, of this Title; or the bonds or other  
16 evidences of indebtedness of public utility companies organized  
17 under the laws of Canada or any province thereof; or the capital  
18 stock, bonds, securities or evidences of indebtedness created by any  
19 corporation of the United States or of any state, or of the District of  
20 Columbia, or of the Commonwealth of Puerto Rico or of Canada or  
21 of any province thereof; provided, that no purchase of any bond or  
22 evidence of indebtedness which is in default as to interest shall be  
23 made by such company unless such purchase is necessary to protect  
24 an investment theretofore made under authority of **[said]** chapters  
25 17 to 33, inclusive, of this Title, in the securities of the corporation  
26 which issued, assumed or guaranteed such bond or evidence of  
27 indebtedness in default; provided further, that no purchase of the  
28 stock of any **[company]** corporation of a class on which dividends  
29 have not been paid during each of the past **[5]** five years preceding  
30 the time of purchase shall be made unless the stock so purchased  
31 shall represent a majority in control of all the stock then  
32 outstanding~~;~~ and provided further, that ~~in~~, or the corporation shall  
33 have earned during the period of such five years an aggregate sum  
34 available for dividends upon such stock which would have been  
35 sufficient, after all fixed charges and obligations, to pay dividends  
36 upon all shares of such class of stock outstanding during such  
37 period averaging 4% per annum computed upon the par value of  
38 such stock, or in the case of stock having no par value, upon the  
39 stated capital in respect thereof; and provided further, that in the  
40 case of the stock of a corporation resulting from or formed by  
41 merger, consolidation, acquisition or otherwise, less than five years  
42 preceding the time of purchase, each consecutive year next  
43 preceding the effective date of such merger, consolidation,  
44 acquisition or other action during which dividends or other  
45 distributions of profits shall have been paid by any one or more of  
46 its constituent or predecessor institutions shall be deemed a year  
47 during which dividends have been paid on such class of stock and

1 the earnings of such constituent or predecessor institutions available  
2 for dividends during each of such years may be included as earnings  
3 of the existing corporation whose stock is to be purchased for each  
4 such years, and in the case of the stock of a corporation resulting  
5 from or formed by merger or consolidation less than [5] five years  
6 [prior to] preceding such purchase, each consecutive year next  
7 preceding the effective date of such merger or consolidation during  
8 which dividends shall have been paid by any one or more of its  
9 constituent corporations on any or all classes of its or their stock in  
10 an aggregate amount sufficient to have paid dividends on that class  
11 of stock of the existing corporation whose stock is to be purchased,  
12 had such corporation then been in existence, shall be deemed a year  
13 during which dividends have been paid on such class of stock;  
14 provided, however, that nothing herein contained shall prohibit the  
15 purchase of stock of any class which is preferred, as to dividends,  
16 over any class the purchase of which is not prohibited by this  
17 section; and provided further, that no purchase of its own stock  
18 shall be made by any insurance company except for the purpose of  
19 the retirement of such stock or except as specifically permitted by  
20 any law of this State applicable by its terms only to insurance  
21 companies. <sup>1</sup>Unless the stock so purchased shall represent a  
22 majority in control of all the stock then outstanding, the cost of  
23 stock investment pursuant to this section may not exceed more than  
24 25% of the total admitted assets of such insurance company as of  
25 December 31 next preceding with no more than 5% in any one  
26 stock. Notwithstanding any other provision of R.S.17:24-1 et seq.,  
27 the cost basis of all stock investment shall be used for the purpose  
28 of determining the asset value against which such percentage  
29 limitations are to be applied.

30 The aggregate amount invested at cost, including but not limited  
31 to common stock, preferred stock and debt obligations, in one or  
32 more subsidiaries shall not exceed the lesser of 10% of such  
33 insurance company's assets or 50% of such insurance company's  
34 surplus as regards policyholders as of December 31 next preceding.  
35 In calculating the amount of such investments, investments in  
36 domestic or foreign insurance subsidiaries shall be excluded.<sup>1</sup>

37 f. Invest in bonds or notes evidencing loans if the full amount of  
38 any such loan is insured by the government of the United States, or  
39 by the Administrator of the Farmers' Home Administration pursuant  
40 to the "Bankhead-Jones Farm Tenant Act [of 1937] ," Pub.L.75-  
41 210 (7 U.S.C. s.1000 et seq.), as heretofore or hereafter amended.

42 g. <sup>1</sup>[Make] Except as provided in section 3 of P.L. \_\_\_\_\_,  
43 c. (C. ) (pending before the Legislature as this bill), make<sup>1</sup> loans  
44 or investments not qualifying or permitted under [the preceding  
45 subsections] any subsection of this section to an amount, not  
46 including the amount of investments otherwise expressly authorized  
47 by law, not exceeding in the aggregate at any one time [5%] <sup>1</sup>the

1 greater of 5% of the total admitted assets or 50% of the excess of  
2 total admitted assets over the sum of liabilities plus capital and  
3 surplus required to transact business, but in any event not to  
4 exceed<sup>1</sup> 10% of the total admitted assets of such insurance company  
5 as of December 31 next preceding.

6 <sup>1</sup>[h. Invest in securities, properties and other investments in  
7 foreign countries, which are substantially of the same character as  
8 prescribed for authorized investments for funds of the insurance  
9 company under any subsection of this section, to an amount valued  
10 at cost, not exceeding in the aggregate, at any one time, 20% of the  
11 total admitted assets of such insurance company as of December 31  
12 next preceding; provided, however, that the amount invested  
13 pursuant to this subsection h. in authorized investments, other than  
14 qualified foreign investments, shall not exceed in the aggregate, at  
15 any one time, 3% of such admitted assets; and provided further that  
16 the amount invested in authorized investments in any one foreign  
17 country pursuant to this subsection h. shall not exceed in the  
18 aggregate, at any one time, 10% of such admitted assets. For the  
19 purpose of this subsection h., Canada shall not be deemed to be a  
20 foreign country.

21 The term “qualified foreign investment” as used in this  
22 subsection h. shall include any investment in a foreign country  
23 where: (1) the issuer or obligor is (a) a jurisdiction which is rated in  
24 one of the two highest rating categories by an independent,  
25 nationally recognized United States rating agency, (b) any political  
26 subdivision or other governmental unit of any such jurisdiction, or  
27 any agency or instrumentality of any such jurisdiction, political  
28 subdivision or other governmental unit, or (c) an institution which  
29 is organized under the laws of any such jurisdiction, or, in the case  
30 of investments which are substantially of the same character as  
31 prescribed for investments under subsections b. and c. of this  
32 section, the real property is located in any such jurisdiction; and (2)  
33 if the investment is denominated in any currency other than United  
34 States dollars, the investment is effectively hedged, substantially in  
35 its entirety, against the United States dollar pursuant to contracts or  
36 agreements which are (a) issued by or traded on a securities  
37 exchange or board of trade regulated under the laws of the United  
38 States or Canada or a province thereof, (b) entered into with a  
39 United States banking institution which has assets in excess of \$5,  
40 000,000,000 and which has obligations outstanding, or has a parent  
41 corporation which has obligations outstanding, which are rated in  
42 one of the two highest rating categories by an independent,  
43 nationally recognized United States rating agency, or with a broker-  
44 dealer registered with the Securities and Exchange Commission  
45 which has net capital in excess of \$250,000,000, or (c) entered into  
46 with any other banking institution which has assets in excess of  
47 \$5,000,000,000 and which has obligations outstanding, or has a  
48 parent corporation which has obligations outstanding, which are

1 rated in one of the two highest rating categories by an independent,  
2 nationally recognized United States rating agency and which is  
3 organized under the laws of a jurisdiction which is rated in one of  
4 the two highest rating categories by an independent, nationally  
5 recognized United States rating agency.

6 Any investment qualified pursuant to paragraph (2) of the  
7 preceding definition of “qualified foreign investment” shall remain  
8 so qualified only at those times that the hedging requirements of  
9 paragraph (2) are met.]<sup>1</sup>

10 (cf: P.L.1983, c.81, s.1)

11  
12 <sup>1</sup>2. (New Section) a. An insurer's board of directors shall adopt a  
13 written plan for acquiring and holding investments and for engaging  
14 in investment practices that specifies guidelines as to the quality,  
15 maturity, and diversification of investments and other specifications  
16 including investment strategies intended to assure that the  
17 investments and investment practices are appropriate for the  
18 business conducted by the insurer, its liquidity needs, and its capital  
19 and surplus. The board shall review and assess the insurer's  
20 technical investment and administrative capabilities and expertise  
21 before adopting a written plan concerning an investment strategy or  
22 investment practice.

23 b. Investments acquired and held under R.S.17:24-1 et seq. shall  
24 be acquired and held under the supervision and direction of the  
25 board of directors of the insurer. The board of directors shall  
26 evidence by formal resolution, at least annually, that it has  
27 determined whether all investments have been made in accordance  
28 with delegations, standards, limitations and investment objectives  
29 prescribed by the board or a committee of the board charged with  
30 the responsibility to direct its investments.

31 c. On no less than a quarterly basis, and more often if deemed  
32 appropriate, an insurer's board of directors or committee of the  
33 board of directors shall:

34 (1) Receive and review a summary report on the insurer's  
35 investment portfolio, its investment activities and investment  
36 practices engaged in under delegated authority, in order to  
37 determine whether the investment activity of the insurer is  
38 consistent with its written plan; and

39 (2) Review and revise, as appropriate, the written plan.

40 d. In discharging its duties under this section, the board of  
41 directors shall require that records of any authorizations or  
42 approvals, other documentation as the board may require and  
43 reports of any action taken under authority delegated under the plan  
44 referred to in subsection a. of this section shall be made available  
45 on a regular basis to the board of directors.

46 e. If an insurer does not have a board of directors, all references  
47 to the board of directors in R.S.17:24-1 et seq. shall be deemed to  
48 be references to the governing body of the insurer having authority



1 equivalent to that of a board of directors.<sup>1</sup>

2

3 '3. (New Section) a. (1) Except as provided in subsection b. of  
4 this section, an insurer shall not, without the prior written approval  
5 of the commissioner, directly or indirectly:

6 (a) make a loan to, or other investment in, an officer or director  
7 of the insurer or a person in which the officer or director has any  
8 direct or indirect financial interest;

9 (b) make a guarantee for the benefit of, or in favor of, an officer  
10 or director of the insurer or a person in which the officer or director  
11 has any direct or indirect financial interest; or

12 (c) enter into an agreement for the purchase or sale of property  
13 from or to an officer or director of the insurer or a person in which  
14 the officer or director has any direct or indirect financial interest.

15 (2) For purposes of this section, an officer or director shall not be  
16 deemed to have a financial interest by reason of an interest that is  
17 held directly or indirectly through the ownership of equity interests  
18 representing less than 5% of all outstanding equity interests issued  
19 by a person that is a party to the transaction, or solely by reason of  
20 that individual's position as a director or officer of a person that is a  
21 party to the transaction.

22 (3) Nothing in this subsection shall permit an investment that is  
23 otherwise prohibited by law.

24 (4) This subsection shall not apply to a transaction between an  
25 insurer and any of its subsidiaries or affiliates entered into in  
26 compliance with section 4 of P.L.1970, c.22 (C.17:27A-4) other  
27 than a transaction between an insurer and its officer or director.

28 b. An insurer may make, without the prior written approval of  
29 the commissioner:

30 (1) Advances to officers or directors for expenses reasonably  
31 expected to be incurred in the ordinary course of the insurer's  
32 business or guarantees associated with credit or debit cards issued  
33 or credit extended for the purpose of financing these expenses;

34 (2) Loans secured by the principal residence of an existing or  
35 new officer of the insurer made in connection with the officer's  
36 relocation at the insurer's request, so long as the terms and  
37 conditions otherwise are the same as those generally available from  
38 unaffiliated third parties;

39 (3) Secured loans to an existing or new officer of the insurer  
40 made in connection with the officer's relocation at the insurer's  
41 request, if the loans:

42 (a) do not have a term exceeding two years;

43 (b) are required to finance mortgage loans outstanding at the  
44 same time on the prior and new residences of the officer;

45 (c) do not exceed an amount equal to the equity of the officer in  
46 the prior residence; and

47 (d) are required to be fully repaid within two years, or upon the  
48 sale of the prior residence whichever first occurs; and

1       (4) Loans and advances to officers or directors made in  
2 compliance with State or federal law specifically related to the  
3 loans and advances by a regulated non-insurance subsidiary or  
4 affiliate of the insurer in the ordinary course of business and on  
5 terms no more favorable than those available to other customers of  
6 the entity.<sup>1</sup>

7

8       <sup>1</sup>[2.] 4.<sup>1</sup> This act shall take effect immediately.

9

10

11

12

13       Increases investment options for domestic property and casualty  
14 insurance companies' capital, surplus and other funds.

# ASSEMBLY, No. 3289

## STATE OF NEW JERSEY 212th LEGISLATURE

INTRODUCED JUNE 12, 2006

**Sponsored by:**  
**Assemblyman NEIL M. COHEN**  
**District 20 (Union)**

### **SYNOPSIS**

Increases investment options for domestic property and casualty insurance companies' capital, surplus and other funds.

### **CURRENT VERSION OF TEXT**

As introduced.



1 AN ACT concerning investments by certain domestic insurance  
2 companies and amending R.S.17:24-1.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6

7 1. R.S.17:24-1 is amended to read as follows:

8 R.S.17:24-1. Any insurance company of this State for the  
9 purpose of investing its capital, surplus and other funds, or any part  
10 thereof, may:

11 a. Purchase or hold as collateral security or otherwise and sell  
12 and transfer any bonds or public stock issued, created or guaranteed  
13 by the United States, or any territory or insular possession thereof,  
14 or the Commonwealth of Puerto Rico, or by this State, or by any of  
15 the other states of the United States or the District of Columbia, or  
16 by Canada or any of the provinces thereof, or by any of the  
17 incorporated cities, counties, parishes, townships or other municipal  
18 corporations situated in any of the places hereinabove mentioned; or  
19 bonds authorized to be issued by any commission appointed by the  
20 Supreme Court of this State as the said court was constituted prior  
21 to September 15, 1948.

22 b. Purchase or hold real estate for business or residential  
23 purposes **[( ) , other than as provided for in [sections] R.S. 17:19-8**  
24 **to 17:19-12, inclusive, [of this Title)]** as an investment for the  
25 production of income, and improve or otherwise develop such real  
26 estate; provided, that if the commissioner shall determine, after due  
27 hearing upon notice to any such insurance company, that the  
28 interests of such insurance company's policyholders require that any  
29 specified real estate so purchased or held be disposed of, then such  
30 insurance company shall dispose of such real estate within such  
31 reasonable time as the commissioner shall direct; and provided  
32 further, the aggregate amount of such investments for the  
33 production of income, but excluding real estate held as provided for  
34 in **[said sections] R.S. 17:19-8 to 17:19-12, inclusive,** shall not  
35 exceed 5% of the total admitted assets of such insurance company  
36 as of December 31 next preceding. The term "real estate for  
37 business or residential purposes" as used in this subsection b. shall  
38 include any real property used or operated as a part of or in  
39 connection with a business or a residential development, and shall  
40 also include a leasehold of such real estate having an unexpired  
41 term of not less than 20 years, inclusive of the term or terms which  
42 may be provided by any enforceable option or options of extension  
43 or of renewal. Income produced by investment in any such  
44 leasehold shall be applied by such insurance company in a manner  
45 calculated to amortize the amount invested for acquisition and

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

**Matter underlined thus is new matter.**

1 improvement thereof within a period not exceeding 8/10 of such  
2 unexpired term of the leasehold following such acquisition or  
3 improvement, or within a period of 40 years thereafter, whichever is  
4 less.

5 c. Invest in bonds or notes secured by mortgages or trust deeds  
6 on unencumbered fee simple or leasehold real estate, which shall  
7 include areas above the surface of the ground but not contiguous  
8 thereto, or any interest therein, located within the United States, any  
9 territory or insular possession thereof, the Commonwealth of Puerto  
10 Rico, or Canada, worth at least 1/3 more than the sum so invested.  
11 No loan may be made on leasehold real estate unless the terms of  
12 such loan provide for amortization payments to be made by the  
13 borrower on the principal thereof in amounts sufficient to  
14 completely amortize the loan within a period not exceeding 9/10 of  
15 the term of the leasehold, inclusive of the term or terms which may  
16 be provided by any enforceable option or options of extension or of  
17 renewal, which is unexpired at the time the loan is made. For the  
18 purpose of this subsection c., fee simple or leasehold real estate or  
19 any interest therein shall not be deemed to be encumbered within  
20 the meaning of this subsection c. by reason of the existence of taxes  
21 or assessments that are not delinquent, easements, profits or  
22 licenses, nor by reason of building restrictions or other restrictive  
23 covenants, nor when such real estate or interest therein is subject to  
24 lease in whole or in part whereby rents or profits are reserved to the  
25 owner; provided, that the security created by the mortgage or trust  
26 deed on such real estate or interest therein securing such bond or  
27 note is a first lien upon such real estate or interest therein. No  
28 insurance company shall, pursuant to this subsection c., invest in or  
29 loan upon the security of any one property more than **【\$30,000.00】**  
30 \$30,000 or more than 2% of its total admitted assets, whichever is  
31 the greater. The total investments of any insurance company made  
32 pursuant to this subsection c. shall not exceed 40% of its total  
33 admitted assets.

34 d. Invest in bonds or notes evidencing loans to veterans if the  
35 full amount of any such loan is guaranteed by the government of the  
36 United States or by the Administrator of Veterans' Affairs pursuant  
37 to the “ Servicemen's Readjustment Act of 1944, ” Pub.L.78-346  
38 (38 U.S.C. s.3701 et seq.), as heretofore or hereafter amended; and  
39 in the case of loans so guaranteed for less than the full amount  
40 thereof, the maximum amount which may be loaned or invested by  
41 any such insurance company pursuant to the provisions of any law  
42 of this State shall be increased by the amount so guaranteed.

43 e. Lend on or purchase mortgage or collateral trust bonds of  
44 railroad companies organized under the laws of said states, or the  
45 District of Columbia, or the Commonwealth of Puerto Rico, or  
46 Canada or any province thereof, or operated wholly or partly  
47 therein; or equipment trust certificates or obligations which are  
48 adequately secured or other adequately secured instruments

1 evidencing an interest in transportation or municipal sanitation  
2 equipment wholly or in part within the United States or any  
3 territory or insular possession thereof, the Commonwealth of Puerto  
4 Rico or Canada and a right to receive determined portions of rental,  
5 purchase or other fixed obligatory payments for the use or purchase  
6 of such equipment; or certificates of receivers of any corporation  
7 where such purchase is necessary to protect an investment in the  
8 securities of such corporation theretofore made under authority of  
9 chapters 17 to 33 , inclusive, of this Title; or the bonds or other  
10 evidences of indebtedness of public utility companies organized  
11 under the laws of Canada or any province thereof; or the capital  
12 stock, bonds, securities or evidences of indebtedness created by any  
13 corporation of the United States or of any state, or of the District of  
14 Columbia, or of the Commonwealth of Puerto Rico or of Canada or  
15 of any province thereof; provided, that no purchase of any bond or  
16 evidence of indebtedness which is in default as to interest shall be  
17 made by such company unless such purchase is necessary to protect  
18 an investment theretofore made under authority of **【said】** chapters  
19 17 to 33 , inclusive, of this Title, in the securities of the corporation  
20 which issued, assumed or guaranteed such bond or evidence of  
21 indebtedness in default; provided further, that no purchase of the  
22 stock of any **【company】** corporation of a class on which dividends  
23 have not been paid during each of the past **【5】** five years preceding  
24 the time of purchase shall be made unless the stock so purchased  
25 shall represent a majority in control of all the stock then  
26 outstanding**【;** and provided further, that in**【** , or the corporation  
27 shall have earned during the period of such five years an aggregate  
28 sum available for dividends upon such stock which would have  
29 been sufficient, after all fixed charges and obligations, to pay  
30 dividends upon all shares of such class of stock outstanding during  
31 such period averaging 4% per annum computed upon the par value  
32 of such stock, or in the case of stock having no par value, upon the  
33 stated capital in respect thereof; and provided further, that in the  
34 case of the stock of a corporation resulting from or formed by  
35 merger, consolidation, acquisition or otherwise, less than five years  
36 preceding the time of purchase, each consecutive year next  
37 preceding the effective date of such merger, consolidation,  
38 acquisition or other action during which dividends or other  
39 distributions of profits shall have been paid by any one or more of  
40 its constituent or predecessor institutions shall be deemed a year  
41 during which dividends have been paid on such class of stock and  
42 the earnings of such constituent or predecessor institutions available  
43 for dividends during each of such years may be included as earnings  
44 of the existing corporation whose stock is to be purchased for each  
45 such years, and in the case of the stock of a corporation resulting  
46 from or formed by merger or consolidation less than **【5】** five years  
47 **【prior to】** preceding such purchase, each consecutive year next

1 preceding the effective date of such merger or consolidation during  
2 which dividends shall have been paid by any one or more of its  
3 constituent corporations on any or all classes of its or their stock in  
4 an aggregate amount sufficient to have paid dividends on that class  
5 of stock of the existing corporation whose stock is to be purchased,  
6 had such corporation then been in existence, shall be deemed a year  
7 during which dividends have been paid on such class of stock;  
8 provided, however, that nothing herein contained shall prohibit the  
9 purchase of stock of any class which is preferred, as to dividends,  
10 over any class the purchase of which is not prohibited by this  
11 section; and provided further, that no purchase of its own stock  
12 shall be made by any insurance company except for the purpose of  
13 the retirement of such stock or except as specifically permitted by  
14 any law of this State applicable by its terms only to insurance  
15 companies.

16 f. Invest in bonds or notes evidencing loans if the full amount of  
17 any such loan is insured by the government of the United States, or  
18 by the Administrator of the Farmers' Home Administration pursuant  
19 to the "Bankhead-Jones Farm Tenant Act [of 1937]," Pub.L.75-  
20 210 (7 U.S.C. s.1000 et seq.), as heretofore or hereafter amended.

21 g. Make loans or investments not qualifying or permitted under  
22 [the preceding subsections] any subsection of this section to an  
23 amount, not including the amount of investments otherwise  
24 expressly authorized by law, not exceeding in the aggregate at any  
25 one time [5%] 10% of the total admitted assets of such insurance  
26 company as of December 31 next preceding.

27 h. Invest in securities, properties and other investments in  
28 foreign countries, which are substantially of the same character as  
29 prescribed for authorized investments for funds of the insurance  
30 company under any subsection of this section, to an amount valued  
31 at cost, not exceeding in the aggregate, at any one time, 20% of the  
32 total admitted assets of such insurance company as of December 31  
33 next preceding; provided, however, that the amount invested  
34 pursuant to this subsection h. in authorized investments, other than  
35 qualified foreign investments, shall not exceed in the aggregate, at  
36 any one time, 3% of such admitted assets; and provided further that  
37 the amount invested in authorized investments in any one foreign  
38 country pursuant to this subsection h. shall not exceed in the  
39 aggregate, at any one time, 10% of such admitted assets. For the  
40 purpose of this subsection h., Canada shall not be deemed to be a  
41 foreign country.

42 The term "qualified foreign investment" as used in this  
43 subsection h. shall include any investment in a foreign country  
44 where: (1) the issuer or obligor is (a) a jurisdiction which is rated in  
45 one of the two highest rating categories by an independent,  
46 nationally recognized United States rating agency, (b) any political  
47 subdivision or other governmental unit of any such jurisdiction, or  
48 any agency or instrumentality of any such jurisdiction, political

1 subdivision or other governmental unit, or (c) an institution which  
2 is organized under the laws of any such jurisdiction, or, in the case  
3 of investments which are substantially of the same character as  
4 prescribed for investments under subsections b. and c. of this  
5 section, the real property is located in any such jurisdiction; and (2)  
6 if the investment is denominated in any currency other than United  
7 States dollars, the investment is effectively hedged, substantially in  
8 its entirety, against the United States dollar pursuant to contracts or  
9 agreements which are (a) issued by or traded on a securities  
10 exchange or board of trade regulated under the laws of the United  
11 States or Canada or a province thereof, (b) entered into with a  
12 United States banking institution which has assets in excess of \$5,  
13 000,000,000 and which has obligations outstanding, or has a parent  
14 corporation which has obligations outstanding, which are rated in  
15 one of the two highest rating categories by an independent,  
16 nationally recognized United States rating agency, or with a broker-  
17 dealer registered with the Securities and Exchange Commission  
18 which has net capital in excess of \$250,000,000, or (c) entered into  
19 with any other banking institution which has assets in excess of  
20 \$5,000,000,000 and which has obligations outstanding, or has a  
21 parent corporation which has obligations outstanding, which are  
22 rated in one of the two highest rating categories by an independent,  
23 nationally recognized United States rating agency and which is  
24 organized under the laws of a jurisdiction which is rated in one of  
25 the two highest rating categories by an independent, nationally  
26 recognized United States rating agency.

27 Any investment qualified pursuant to paragraph (2) of the  
28 preceding definition of “qualified foreign investment” shall remain  
29 so qualified only at those times that the hedging requirements of  
30 paragraph (2) are met.

31 (cf: P.L.1983, c.81, s.1)

32  
33 2. This act shall take effect immediately.

#### 34 35 36 STATEMENT

37  
38 This bill provides greater flexibility for domestic property and  
39 casualty insurance companies with respect to their investments.

40 The bill provides for investments by such insurance companies  
41 in securities, properties and other investments in foreign countries  
42 which are substantially of the same character as prescribed for the  
43 authorized domestic investments of insurance company funds. An  
44 insurance company's foreign investments shall not exceed in the  
45 aggregate, at any one time, 20% of the insurance company's total  
46 admitted assets, and the amount invested in any one foreign country  
47 shall not exceed in the aggregate, at any one time, 10% of such  
48 admitted assets.



1       The bill also modifies domestic property and casualty insurance  
2 companies' authority to invest in corporations that are incorporated  
3 within the United States, Puerto Rico, or Canada, which have not  
4 paid dividends during the preceding five years, so that investing is  
5 permitted with any such corporation when, during the five years  
6 preceding the time of any stock purchase, the corporation earned an  
7 aggregate sum available for dividends upon the stock which would  
8 have been sufficient to pay dividends upon all shares of such class  
9 of stock outstanding during the five year period averaging 4% per  
10 annum computed upon the par value of the stock, or in the case of  
11 stock having no par value, upon the stated capital in respect thereof.

12       For purposes of purchasing the stocks of a corporation resulting  
13 from or formed by merger, consolidation, acquisition or otherwise  
14 less than five years prior to the insurance companies' time of  
15 purchase, each consecutive year next preceding the effective date of  
16 such merger, consolidation, acquisition or other action:

17       - during which dividends or other distributions of profits have  
18 been paid by any one or more of its constituent or predecessor  
19 institutions shall be deemed a year during which dividends have  
20 been paid; and

21       - the earnings of such constituent or predecessor institutions  
22 available for dividends during each of such years may be included  
23 as earnings of the existing corporation whose stock is to be  
24 purchased for each such years.

25       Finally, the bill increases the amount insurance companies may  
26 invest through loans or investments that are otherwise "not  
27 qualified or permitted" pursuant to the provisions of the applicable  
28 investment law. An insurance company's loans or investments of  
29 such kind shall not exceed in the aggregate, at any one time, 10% of  
30 the total admitted assets of the insurance company, up from the  
31 existing limit of 5% of such assets.

32       The overall intent of the bill provisions is to provide domestic  
33 property and casualty insurance companies with greater flexibility  
34 for their investment activities, similar to the greater investment  
35 flexibility provided to life and health insurance companies pursuant  
36 to P.L.2005, c.193 (amending N.J.S.17B:20-1 and 17B:20-2, and  
37 repealing N.J.S.17B:28-13).

ASSEMBLY FINANCIAL INSTITUTIONS AND INSURANCE  
COMMITTEE

STATEMENT TO

**ASSEMBLY, No. 3289**

with committee amendments

**STATE OF NEW JERSEY**

DATED: JUNE 14, 2007

The Assembly Financial Institutions and Insurance Committee reports favorably and with committee amendments Assembly Bill No. 3289.

This bill, as amended, provides greater flexibility for domestic property and casualty insurance companies with respect to their investments.

The bill modifies domestic property and casualty insurance companies' authority to invest in corporations that are incorporated within the United States, Puerto Rico, or Canada, which have not paid dividends during the preceding five years, so that investing is permitted with any such corporation when, during the five years preceding the time of any stock purchase, the corporation earned an aggregate sum available for dividends upon the stock which would have been sufficient to pay dividends upon all shares of such class of stock outstanding during the five year period averaging 4% per annum computed upon the par value of the stock, or in the case of stock having no par value, upon the stated capital in respect thereof.

For purposes of purchasing the stocks of a corporation resulting from or formed by merger, consolidation, acquisition or otherwise, less than five years prior to the insurance companies' time of purchase, each consecutive year next preceding the effective date of such merger, consolidation, acquisition or other action:

- during which dividends or other distributions of profits have been paid by any one or more of its constituent or predecessor institutions shall be deemed a year during which dividends have been paid; and

- the earnings of such constituent or predecessor institutions available for dividends during each of such years may be included as earnings of the existing corporation whose stock is to be purchased for each such years.

For any stock purchase, other than a purchase representing a majority in control of all the stock of a corporation then outstanding, the cost of the stock investment may not exceed more than 25% of the

total admitted assets of the purchasing insurance company, with no more than 5% in any one stock.

Regarding investments in subsidiaries, the aggregate amount invested at cost, including but not limited to common stock, preferred stock, and debt obligations, shall not exceed the lesser of 10% of the total admitted assets of the insurance company or 50% of such insurance company's surplus as regards policyholders. In calculating the amount of any such subsidiary investment, any investment in a domestic or foreign insurance subsidiary shall be excluded.

The bill also adds flexibility regarding the amount insurance companies may invest through loans or investments that are otherwise "not qualified or permitted" pursuant to the provisions of the applicable investment law. An insurance company's loans or investments of that kind shall not exceed in the aggregate, at any one time, the greater of 5% of the total admitted assets of the insurance company, or 50% of the excess of total admitted assets over the sum of liabilities plus capital and surplus required to transact business, but in any event shall not exceed 10% of the total admitted assets of such insurance company. Under the current law, this category of investment is limited to only 5% or less of the total admitted assets of an insurance company.

The bill further provides requirements for insurance companies' boards of directors to adopt written plans for acquiring and holding investments, as well as investment practices that specify guidelines as to the quality, maturity, and diversification of investments. Insurance companies' boards of directors are expressly responsible for the acquisition and holding of investments, and shall by formal resolution, at least annually, state that they have determined whether all investments are made in accordance with the adopted written plans and other investment objectives prescribed by the board or appropriate committees of such boards.

Finally, in relation to insurance company investments, the bill prohibits, unless there is prior written approval of the Commissioner of Banking and Insurance, the making of loans or other investments, guarantees, or real estate transactions between an insurance company and an officer or director of such company, or any person with which that officer or director has any direct or indirect financial interest. However, the bill provides limited exceptions that do not require the commissioner's written approval for situations such as: advances or guarantees for credit or charge cards for officers or directors for expenses incurred in the ordinary course of the insurance company's business; secured loans to an existing or new officer made in connection with the officer's relocation; and loans or advances made in compliance with state or federal law by a regulated non-insurance subsidiary or affiliate of the insurer in the ordinary course of business, on terms no more favorable than those available to other customers of the subsidiary or affiliate.

This bill, as amended, is identical to Senate Bill No. 830 (1R),

reported by the Senate Commerce Committee on June 14, 2007.

COMMITTEE AMENDMENTS

The committee amendments to the bill:

(1) establish that, for any stock purchase, other than a purchase representing a majority in control of all the stock of a corporation then outstanding, the cost of the stock investment may not exceed more than 25% of the total admitted assets of the purchasing insurance company, with no more than 5% in any one stock;

(2) establish that, regarding investments in subsidiaries, the aggregate amount invested at cost, including but not limited to common stock, preferred stock, and debt obligations, shall not exceed the lesser of 10% of the total admitted assets of the insurance company or 50% of such insurance company's surplus as regards policyholders;

(3) add flexibility regarding the amount insurance companies may invest through loans or investments that are otherwise "not qualified or permitted" pursuant to the provisions of the applicable investment law, with an overall ceiling for such investments increased from 5% to 10% of such companies' total admitted assets;

(4) delete provisions that expressly permit investments in securities, properties, and other investments in foreign countries;

(5) establish requirements for insurance company boards of directors to adopt written plans for acquiring and holding investments, as well as investment practices that specify guidelines as to the quality, maturity, and diversification of investments; and

(6) prohibit generally, unless there is prior written approval of the Commissioner of Banking and Insurance, the making of loans or other investments, guarantees, or real estate transactions between an insurance company and an officer or director of that company, or any person with which that officer or director has any direct or indirect financial interest.

# SENATE, No. 830

## STATE OF NEW JERSEY 212th LEGISLATURE

PRE-FILED FOR INTRODUCTION IN THE 2006 SESSION

**Sponsored by:**

**Senator RAYMOND J. LESNIAK**

**District 20 (Union)**

**SYNOPSIS**

Increases investment options for domestic property and casualty insurance companies' capital, surplus and other funds.

**CURRENT VERSION OF TEXT**

As introduced.



1 AN ACT concerning investments by certain domestic insurance  
2 companies and amending R.S.17:24-1.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State  
5 of New Jersey:

6

7 1. R.S.17:24-1 is amended to read as follows:

8 R.S.17:24-1. Any insurance company of this State for the  
9 purpose of investing its capital, surplus and other funds, or any part  
10 thereof, may:

11 a. Purchase or hold as collateral security or otherwise and sell  
12 and transfer any bonds or public stock issued, created or guaranteed  
13 by the United States, or any territory or insular possession thereof,  
14 or the Commonwealth of Puerto Rico, or by this State, or by any of  
15 the other states of the United States or the District of Columbia, or  
16 by Canada or any of the provinces thereof, or by any of the  
17 incorporated cities, counties, parishes, townships or other municipal  
18 corporations situated in any of the places hereinabove mentioned; or  
19 bonds authorized to be issued by any commission appointed by the  
20 Supreme Court of this State as the said court was constituted prior  
21 to September 15, 1948.

22 b. Purchase or hold real estate for business or residential  
23 purposes [( ) , other than as provided for in [sections] R.S. 17:19-8  
24 to 17:19-12, inclusive, [of this Title)] as an investment for the  
25 production of income, and improve or otherwise develop such real  
26 estate; provided, that if the commissioner shall determine, after due  
27 hearing upon notice to any such insurance company, that the  
28 interests of such insurance company's policyholders require that any  
29 specified real estate so purchased or held be disposed of, then such  
30 insurance company shall dispose of such real estate within such  
31 reasonable time as the commissioner shall direct; and provided  
32 further, the aggregate amount of such investments for the  
33 production of income, but excluding real estate held as provided for  
34 in [said sections] R.S. 17:19-8 to 17:19-12, inclusive, shall not  
35 exceed 5% of the total admitted assets of such insurance company  
36 as of December 31 next preceding. The term "real estate for  
37 business or residential purposes" as used in this subsection b. shall  
38 include any real property used or operated as a part of or in  
39 connection with a business or a residential development, and shall  
40 also include a leasehold of such real estate having an unexpired  
41 term of not less than 20 years, inclusive of the term or terms which  
42 may be provided by any enforceable option or options of extension  
43 or of renewal. Income produced by investment in any such  
44 leasehold shall be applied by such insurance company in a manner

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

**Matter underlined thus is new matter.**

1 calculated to amortize the amount invested for acquisition and  
2 improvement thereof within a period not exceeding 8/10 of such  
3 unexpired term of the leasehold following such acquisition or  
4 improvement, or within a period of 40 years thereafter, whichever is  
5 less.

6 c. Invest in bonds or notes secured by mortgages or trust deeds  
7 on unencumbered fee simple or leasehold real estate, which shall  
8 include areas above the surface of the ground but not contiguous  
9 thereto, or any interest therein, located within the United States, any  
10 territory or insular possession thereof, the Commonwealth of Puerto  
11 Rico, or Canada, worth at least 1/3 more than the sum so invested.  
12 No loan may be made on leasehold real estate unless the terms of  
13 such loan provide for amortization payments to be made by the  
14 borrower on the principal thereof in amounts sufficient to  
15 completely amortize the loan within a period not exceeding 9/10 of  
16 the term of the leasehold, inclusive of the term or terms which may  
17 be provided by any enforceable option or options of extension or of  
18 renewal, which is unexpired at the time the loan is made. For the  
19 purpose of this subsection c., fee simple or leasehold real estate or  
20 any interest therein shall not be deemed to be encumbered within  
21 the meaning of this subsection c. by reason of the existence of taxes  
22 or assessments that are not delinquent, easements, profits or  
23 licenses, nor by reason of building restrictions or other restrictive  
24 covenants, nor when such real estate or interest therein is subject to  
25 lease in whole or in part whereby rents or profits are reserved to the  
26 owner; provided, that the security created by the mortgage or trust  
27 deed on such real estate or interest therein securing such bond or  
28 note is a first lien upon such real estate or interest therein. No  
29 insurance company shall, pursuant to this subsection c., invest in or  
30 loan upon the security of any one property more than [\$30,000.00]  
31 \$30,000 or more than 2% of its total admitted assets, whichever is  
32 the greater. The total investments of any insurance company made  
33 pursuant to this subsection c. shall not exceed 40% of its total  
34 admitted assets.

35 d. Invest in bonds or notes evidencing loans to veterans if the  
36 full amount of any such loan is guaranteed by the government of the  
37 United States or by the Administrator of Veterans' Affairs pursuant  
38 to the " Servicemen's Readjustment Act of 1944, " Pub.L.78-346  
39 (38 U.S.C. s.3701 et seq.), as heretofore or hereafter amended; and  
40 in the case of loans so guaranteed for less than the full amount  
41 thereof, the maximum amount which may be loaned or invested by  
42 any such insurance company pursuant to the provisions of any law  
43 of this State shall be increased by the amount so guaranteed.

44 e. Lend on or purchase mortgage or collateral trust bonds of  
45 railroad companies organized under the laws of said states, or the  
46 District of Columbia, or the Commonwealth of Puerto Rico, or  
47 Canada or any province thereof, or operated wholly or partly

1 therein; or equipment trust certificates or obligations which are  
2 adequately secured or other adequately secured instruments  
3 evidencing an interest in transportation or municipal sanitation  
4 equipment wholly or in part within the United States or any  
5 territory or insular possession thereof, the Commonwealth of Puerto  
6 Rico or Canada and a right to receive determined portions of rental,  
7 purchase or other fixed obligatory payments for the use or purchase  
8 of such equipment; or certificates of receivers of any corporation  
9 where such purchase is necessary to protect an investment in the  
10 securities of such corporation theretofore made under authority of  
11 chapters 17 to 33 , inclusive, of this Title; or the bonds or other  
12 evidences of indebtedness of public utility companies organized  
13 under the laws of Canada or any province thereof; or the capital  
14 stock, bonds, securities or evidences of indebtedness created by any  
15 corporation of the United States or of any state, or of the District of  
16 Columbia, or of the Commonwealth of Puerto Rico or of Canada or  
17 of any province thereof; provided, that no purchase of any bond or  
18 evidence of indebtedness which is in default as to interest shall be  
19 made by such company unless such purchase is necessary to protect  
20 an investment theretofore made under authority of [said] chapters  
21 17 to 33 , inclusive, of this Title, in the securities of the corporation  
22 which issued, assumed or guaranteed such bond or evidence of  
23 indebtedness in default; provided further, that no purchase of the  
24 stock of any [company] corporation of a class on which dividends  
25 have not been paid during each of the past [5] five years preceding  
26 the time of purchase shall be made unless the stock so purchased  
27 shall represent a majority in control of all the stock then  
28 outstanding[; and provided further, that in] , or the corporation shall  
29 have earned during the period of such five years an aggregate sum  
30 available for dividends upon such stock which would have been  
31 sufficient, after all fixed charges and obligations, to pay dividends  
32 upon all shares of such class of stock outstanding during such  
33 period averaging 4% per annum computed upon the par value of  
34 such stock, or in the case of stock having no par value, upon the  
35 stated capital in respect thereof; and provided further, that in the  
36 case of the stock of a corporation resulting from or formed by  
37 merger, consolidation, acquisition or otherwise, less than five years  
38 preceding the time of purchase, each consecutive year next  
39 preceding the effective date of such merger, consolidation,  
40 acquisition or other action during which dividends or other  
41 distributions of profits shall have been paid by any one or more of  
42 its constituent or predecessor institutions shall be deemed a year  
43 during which dividends have been paid on such class of stock and  
44 the earnings of such constituent or predecessor institutions available  
45 for dividends during each of such years may be included as earnings  
46 of the existing corporation whose stock is to be purchased for each



1 such years, and in the case of the stock of a corporation resulting  
2 from or formed by merger or consolidation less than [5] five years  
3 [prior to] preceding such purchase, each consecutive year next  
4 preceding the effective date of such merger or consolidation during  
5 which dividends shall have been paid by any one or more of its  
6 constituent corporations on any or all classes of its or their stock in  
7 an aggregate amount sufficient to have paid dividends on that class  
8 of stock of the existing corporation whose stock is to be purchased,  
9 had such corporation then been in existence, shall be deemed a year  
10 during which dividends have been paid on such class of stock;  
11 provided, however, that nothing herein contained shall prohibit the  
12 purchase of stock of any class which is preferred, as to dividends,  
13 over any class the purchase of which is not prohibited by this  
14 section; and provided further, that no purchase of its own stock  
15 shall be made by any insurance company except for the purpose of  
16 the retirement of such stock or except as specifically permitted by  
17 any law of this State applicable by its terms only to insurance  
18 companies.

19 f. Invest in bonds or notes evidencing loans if the full amount of  
20 any such loan is insured by the government of the United States, or  
21 by the Administrator of the Farmers' Home Administration pursuant  
22 to the “ Bankhead-Jones Farm Tenant Act [of 1937] ,” Pub.L.75-  
23 210 (7 U.S.C. s.1000 et seq.), as heretofore or hereafter amended.

24 g. Make loans or investments not qualifying or permitted under  
25 [the preceding subsections] any subsection of this section to an  
26 amount, not including the amount of investments otherwise  
27 expressly authorized by law, not exceeding in the aggregate at any  
28 one time [5%] 10% of the total admitted assets of such insurance  
29 company as of December 31 next preceding.

30 h. Invest in securities, properties and other investments in  
31 foreign countries, which are substantially of the same character as  
32 prescribed for authorized investments for funds of the insurance  
33 company under any subsection of this section, to an amount valued  
34 at cost, not exceeding in the aggregate, at any one time, 20% of the  
35 total admitted assets of such insurance company as of December 31  
36 next preceding; provided, however, that the amount invested  
37 pursuant to this subsection h. in authorized investments, other than  
38 qualified foreign investments, shall not exceed in the aggregate, at  
39 any one time, 3% of such admitted assets; and provided further that  
40 the amount invested in authorized investments in any one foreign  
41 country pursuant to this subsection h. shall not exceed in the  
42 aggregate, at any one time, 10% of such admitted assets. For the  
43 purpose of this subsection h., Canada shall not be deemed to be a  
44 foreign country.

45 The term “qualified foreign investment” as used in this  
46 subsection h. shall include any investment in a foreign country

1 where: (1) the issuer or obligor is (a) a jurisdiction which is rated in  
2 one of the two highest rating categories by an independent,  
3 nationally recognized United States rating agency, (b) any political  
4 subdivision or other governmental unit of any such jurisdiction, or  
5 any agency or instrumentality of any such jurisdiction, political  
6 subdivision or other governmental unit, or (c) an institution which  
7 is organized under the laws of any such jurisdiction, or, in the case  
8 of investments which are substantially of the same character as  
9 prescribed for investments under subsections b. and c. of this  
10 section, the real property is located in any such jurisdiction; and (2)  
11 if the investment is denominated in any currency other than United  
12 States dollars, the investment is effectively hedged, substantially in  
13 its entirety, against the United States dollar pursuant to contracts or  
14 agreements which are (a) issued by or traded on a securities  
15 exchange or board of trade regulated under the laws of the United  
16 States or Canada or a province thereof, (b) entered into with a  
17 United States banking institution which has assets in excess of \$5,  
18 000,000,000 and which has obligations outstanding, or has a parent  
19 corporation which has obligations outstanding, which are rated in  
20 one of the two highest rating categories by an independent,  
21 nationally recognized United States rating agency, or with a broker-  
22 dealer registered with the Securities and Exchange Commission  
23 which has net capital in excess of \$250,000,000, or (c) entered into  
24 with any other banking institution which has assets in excess of  
25 \$5,000,000,000 and which has obligations outstanding, or has a  
26 parent corporation which has obligations outstanding, which are  
27 rated in one of the two highest rating categories by an independent,  
28 nationally recognized United States rating agency and which is  
29 organized under the laws of a jurisdiction which is rated in one of  
30 the two highest rating categories by an independent, nationally  
31 recognized United States rating agency.

32 Any investment qualified pursuant to paragraph (2) of the  
33 preceding definition of “qualified foreign investment” shall remain  
34 so qualified only at those times that the hedging requirements of  
35 paragraph (2) are met.

36 (cf: P.L.1983, c.81, s.1)

37

38 2. This act shall take effect immediately.

39

40

41

## STATEMENT

42

43 This bill provides greater flexibility for domestic property and  
44 casualty insurance companies with respect to their investments.

45 The bill provides for investments by such insurance companies  
46 in securities, properties and other investments in foreign countries  
47 which are substantially of the same character as prescribed for the  
48 authorized domestic investments of insurance company funds. An

1 insurance company's foreign investments shall not exceed in the  
2 aggregate, at any one time, 20% of the insurance company's total  
3 admitted assets, and the amount invested in any one foreign country  
4 shall not exceed in the aggregate, at any one time, 10% of such  
5 admitted assets.

6 The bill also modifies domestic property and casualty insurance  
7 companies' authority to invest in corporations that are incorporated  
8 within the United States, Puerto Rico, or Canada, which have not  
9 paid dividends during the preceding five years, so that investing is  
10 permitted with any such corporation when, during the five years  
11 preceding the time of any stock purchase, the corporation earned an  
12 aggregate sum available for dividends upon the stock which would  
13 have been sufficient to pay dividends upon all shares of such class  
14 of stock outstanding during the five year period averaging 4% per  
15 annum computed upon the par value of the stock, or in the case of  
16 stock having no par value, upon the stated capital in respect thereof.

17 For purposes of purchasing the stocks of a corporation resulting  
18 from or formed by merger, consolidation, acquisition or otherwise  
19 less than five years prior to the insurance companies' time of  
20 purchase, each consecutive year next preceding the effective date of  
21 such merger, consolidation, acquisition or other action:

22 - during which dividends or other distributions of profits have  
23 been paid by any one or more of its constituent or predecessor  
24 institutions shall be deemed a year during which dividends have  
25 been paid; and

26 - the earnings of such constituent or predecessor institutions  
27 available for dividends during each of such years may be included  
28 as earnings of the existing corporation whose stock is to be  
29 purchased for each such years.

30 Finally, the bill increases the amount insurance companies may  
31 invest through loans or investments that are otherwise "not  
32 qualified or permitted" pursuant to the provisions of the applicable  
33 investment law. An insurance company's loans or investments of  
34 such kind shall not exceed in the aggregate, at any one time, 10% of  
35 the total admitted assets of the insurance company, up from the  
36 existing limit of 5% of such assets.

37 The overall intent of the bill provisions is to provide domestic  
38 property and casualty insurance companies with greater flexibility  
39 for their investment activities, similar to the greater investment  
40 flexibility provided to life and health insurance companies pursuant  
41 to P.L.2005, c.193 (amending N.J.S.17B:20-1 and 17B:20-2, and  
42 repealing N.J.S.17B:28-13).

# SENATE COMMERCE COMMITTEE

## STATEMENT TO

### **SENATE, No. 830**

with committee amendments

# **STATE OF NEW JERSEY**

DATED: JUNE 14, 2007

The Senate Commerce Committee reports favorably and with committee amendments Senate Bill No. 830.

This bill, as amended, provides greater flexibility for domestic property and casualty insurance companies with respect to their investments.

The bill modifies domestic property and casualty insurance companies' authority to invest in corporations that are incorporated within the United States, Puerto Rico, or Canada, which have not paid dividends during the preceding five years, so that investing is permitted with any such corporation when, during the five years preceding the time of any stock purchase, the corporation earned an aggregate sum available for dividends upon the stock which would have been sufficient to pay dividends upon all shares of such class of stock outstanding during the five year period averaging 4% per annum computed upon the par value of the stock, or in the case of stock having no par value, upon the stated capital in respect thereof.

For purposes of purchasing the stocks of a corporation resulting from or formed by merger, consolidation, acquisition or otherwise less than five years prior to the insurance companies' time of purchase, each consecutive year next preceding the effective date of such merger, consolidation, acquisition or other action:

- during which dividends or other distributions of profits have been paid by any one or more of its constituent or predecessor institutions shall be deemed a year during which dividends have been paid; and

- the earnings of such constituent or predecessor institutions available for dividends during each of such years may be included as earnings of the existing corporation whose stock is to be purchased for each such years.

For any stock purchase, other than a purchase representing a majority in control of all the stock of a corporation then outstanding, the cost of the stock investment may not exceed more than 25% of the total admitted assets of the purchasing insurance company, with no more than 5% in any one stock.

Regarding investments in subsidiaries, the aggregate amount invested at cost, including but not limited to common stock, preferred stock, and debt obligations, shall not exceed the lesser of 10% of the total admitted assets of the insurance company or 50% of such insurance company's surplus as regards policyholders. In calculating the amount of any such subsidiary investment, any investment in a domestic or foreign insurance subsidiary shall be excluded.

The bill also adds flexibility regarding the amount insurance companies may invest through loans or investments that are otherwise "not qualified or permitted" pursuant to the provisions of the applicable investment law. An insurance company's loans or investments of that kind shall not exceed in the aggregate, at any one time, the greater of 5% of the total admitted assets of the insurance company, or 50% of the excess of total admitted assets over the sum of liabilities plus capital and surplus required to transact business, but in any event shall not exceed 10% of the total admitted assets of such insurance company. Under the current law, this category of investment is limited to only 5% or less of the total admitted assets of an insurance company.

The bill further provides requirements for insurance companies' boards of directors to adopt written plans for acquiring and holding investments, as well as investment practices that specify guidelines as to the quality, maturity, and diversification of investments. Insurance companies' boards of directors are expressly responsible for the acquisition and holding of investments, and shall by formal resolution, at least annually, state that they have determined whether all investments are made in accordance with their adopted written plans and other investment objectives prescribed by such boards or appropriate committees of such boards.

Finally, in relation to insurance company investments, the bill prohibits, unless there is prior written approval of the Commissioner of Banking and Insurance, the making of loans or other investments, guarantees, or real estate transactions between an insurance company and an officer or director of such company, or any person with which that officer or director has any direct or indirect financial interest. However, the bill provides limited exceptions not requiring the commissioner's written approval for situations such as: advances or guarantees for credit or charge cards for officers or directors for expenses incurred in the ordinary course of the insurance company's business; secured loans to an existing or new officer made in connection with the officer's relocation; and loans or advances made in compliance with state or federal law by a regulated non-insurance subsidiary or affiliate of the insurer in the ordinary course of business, on terms no more favorable than those available to other customers of the subsidiary or affiliate.

This bill, as amended, is identical to the provisions of Assembly Bill No. 3289 (1R), reported by the Assembly Financial Institutions and Insurance Committee on June 14, 2007.

The committee amendments to the bill:

- establish that, for any stock purchase, other than a purchase representing a majority in control of all the stock of a corporation then outstanding, the cost of the stock investment may not exceed more than 25% of the total admitted assets of the purchasing insurance company, with no more than 5% in any one stock;
- establish that, regarding investments in subsidiaries, the aggregate amount invested at cost, including but not limited to common stock, preferred stock, and debt obligations, shall not exceed the lesser of 10% of the total admitted assets of the insurance company or 50% of such insurance company's surplus as regards policyholders;
- add flexibility regarding the amount insurance companies may invest through loans or investments that are otherwise "not qualified or permitted" pursuant to the provisions of the applicable investment law, with an overall ceiling for such investments increased from 5% to 10% of such companies' total admitted assets;
- delete provisions that expressly permit investments in securities, properties, and other investments in foreign countries;
- establish requirements for insurance company boards of directors to adopt written plans for acquiring and holding investments, as well as investment practices that specify guidelines as to the quality, maturity, and diversification of investments; and
- prohibit generally, unless there is prior written approval of the Commissioner of Banking and Insurance, the making of loans or other investments, guarantees, or real estate transactions between an insurance company and an officer or director of that company, or any person with which that officer or director has any direct or indirect financial interest.

# SENATE BUDGET AND APPROPRIATIONS COMMITTEE

## STATEMENT TO

[First Reprint]

## SENATE, No. 830

# STATE OF NEW JERSEY

DATED: DECEMBER 3, 2007

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 830 (1R).

This bill provides greater flexibility for domestic property and casualty insurance companies with respect to their investments.

The bill modifies domestic property and casualty insurance companies' authority to invest in corporations that are incorporated within the United States, Puerto Rico, or Canada, which have not paid dividends during the preceding five years, so that investing is permitted with any such corporation when, during the five years preceding the time of any stock purchase, the corporation earned an aggregate sum available for dividends upon the stock which would have been sufficient to pay dividends upon all shares of such class of stock outstanding during the five year period averaging 4% per annum computed upon the par value of the stock, or in the case of stock having no par value, upon the stated capital in respect thereof.

For purposes of purchasing the stocks of a corporation resulting from or formed by merger, consolidation, acquisition or otherwise less than five years prior to the insurance companies' time of purchase, each consecutive year next preceding the effective date of such merger, consolidation, acquisition or other action:

- during which dividends or other distributions of profits have been paid by any one or more of its constituent or predecessor institutions shall be deemed a year during which dividends have been paid; and

- the earnings of such constituent or predecessor institutions available for dividends during each of such years may be included as earnings of the existing corporation whose stock is to be purchased for each such years.

For any stock purchase, other than a purchase representing a majority in control of all the stock of a corporation then outstanding, the cost of the stock investment may not exceed more than 25% of the total admitted assets of the purchasing insurance company, with no more than 5% in any one stock.

Regarding investments in subsidiaries, the aggregate amount invested at cost, including but not limited to common stock, preferred

stock, and debt obligations, shall not exceed the lesser of 10% of the total admitted assets of the insurance company or 50% of such insurance company's surplus as regards policyholders. In calculating the amount of any such subsidiary investment, any investment in a domestic or foreign insurance subsidiary shall be excluded.

The bill also adds flexibility regarding the amount insurance companies may invest through loans or investments that are otherwise "not qualified or permitted" pursuant to the provisions of the applicable investment law. An insurance company's loans or investments of that kind shall not exceed in the aggregate, at any one time, the greater of 5% of the total admitted assets of the insurance company, or 50% of the excess of total admitted assets over the sum of liabilities plus capital and surplus required to transact business, but in any event shall not exceed 10% of the total admitted assets of such insurance company. Under the current law, this category of investment is limited to only 5% or less of the total admitted assets of an insurance company.

The bill further provides requirements for insurance companies' boards of directors to adopt written plans for acquiring and holding investments, as well as investment practices that specify guidelines as to the quality, maturity, and diversification of investments. Insurance companies' boards of directors are expressly responsible for the acquisition and holding of investments, and shall by formal resolution, at least annually, state that they have determined whether all investments are made in accordance with their adopted written plans and other investment objectives prescribed by such boards or appropriate committees of such boards.

Finally, in relation to insurance company investments, the bill prohibits, unless there is prior written approval of the Commissioner of Banking and Insurance, the making of loans or other investments, guarantees, or real estate transactions between an insurance company and an officer or director of such company, or any person with which that officer or director has any direct or indirect financial interest. However, the bill provides limited exceptions not requiring the commissioner's written approval for situations.

**FISCAL IMPACT:**

This bill is not certified for a fiscal note.