

Commerce
DeKoster, Chair
Comito
Rush

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Place On Calendar

HOUSE FILE 2358

BY COMMITTEE ON COMMERCE

(Formerly Study Bill 518)

Sub. of S.F. 2205 8/10

Passed House, Date 3-4-82 (p. 669) Passed Senate, Date 3-12-82 (p. 706)
Vote: Ayes 96 Nays 0 Vote: Ayes 47 Nays 0
Approved March 26, 1982 (p. 1080)

A BILL FOR

1 An Act relating to the regulation of insurance companies.
2 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HOUSE FILE 2358

H-5308

1 Amend House File 2358 as follows:
2 1. Amend the title by striking line 1 and inserting
3 in lieu thereof the words "An Act relating to the
4 regulation of insurance to the extent of amending
5 or repealing provisions in Code sections 515.34,
6 515.35, 515B.5, 521A.2 and 521A.3 to provide for the
7 regulation of the investments of insurance companies
8 other than life, to modify the maximum liability of
9 the Iowa insurance guaranty association, and to remove
10 certain provisions regulating insurance holding
11 companies."

H-5308 FILED MARCH 3, 1982 BY HALVORSON of Clayton
Adopted 3/4 (p. 669)

2358

1 Section 1. Section 515.35, Code 1981, as amended by Acts
2 of the Sixty-ninth General Assembly, 1981 Session, chapter
3 169, section 1, is amended by striking the section and
4 inserting in lieu thereof the following:

5 515.35 INVESTMENTS.

6 1. GENERAL CONSIDERATIONS. The following considerations
7 apply in the interpretation of this section:

8 a. This section applies to the investments of insurance
9 companies other than life insurance companies.

10 b. The purpose of this section is to protect and further
11 the interests of policyholders, claimants, creditors, and
12 the public by providing standards for the development and
13 administration of programs for the investment of the assets
14 of companies organized under this chapter. These standards,
15 and the investment programs developed by companies, shall
16 take into account the safety of the company's principal,
17 investment yield and growth, stability in the value of the
18 investment, and liquidity necessary to meet the company's
19 expected business needs, and investment diversification.

20 c. Financial terms relating to insurance companies have
21 the meanings assigned to them under statutory accounting
22 methods. Financial terms relating to companies other than
23 insurance companies have the meanings assigned to them under
24 generally accepted accounting principles.

25 d. Investments shall be valued in accordance with the
26 valuation procedures established by the national association
27 of insurance commissioners, unless the commissioner requires
28 or finds another method of valuation reasonable under the
29 circumstances.

30 e. If an investment qualifies under more than one sub-
31 section, a company may elect to hold the investment under
32 the subsection of its choice. This section does not prevent
33 a company from electing to hold an investment under a
34 subsection different from the one under which it previously
35 held the investment.

1 2. DEFINITIONS. For purposes of this section:

2 a. "Admitted assets", for purposes of computing percentage
3 limitations on particular types of investments, means the
4 assets which are authorized to be shown on the national
5 association of insurance commissioner's annual statement blank
6 as admitted assets as of the December 31 immediately preceding
7 the date the company acquires the investment.

8 b. "Clearing corporation" means as defined in section
9 554.8102, subsection 3.

10 c. "Custodian bank" means as defined in section 554.8102,
11 subsection 4.

12 d. "Issuer" means as defined in section 554.8201.

13 e. "Member bank" means a national bank, state bank, or
14 trust company which is a member of the United States federal
15 reserve system.

16 f. "National securities exchange" means an exchange
17 registered under section 6 of the Securities Exchange Act
18 of 1934 or an exchange regulated under the laws of the Dominion
19 of Canada.

20 g. "Obligations" includes bonds, notes, debentures,
21 transportation equipment certificates, domestic repurchase
22 agreements, and obligations for the payment of money not in
23 default as to payments of principal and interest on the date
24 of investment, which constitute general obligations of the
25 issuer or payable only out of certain revenues or certain
26 funds pledged or otherwise dedicated for payment of principal
27 and interest on the obligations. A lease is an obligation
28 if the lease is assigned to the insurer and is nonterminable
29 by the lessee upon foreclosure of any lien upon the leased
30 property, and if rental payments are sufficient to amortize
31 the investment over the primary lease term.

32 3. INVESTMENTS IN NAME OF COMPANY OR NOMINEE AND
33 PROHIBITIONS.

34 a. A company's investments shall be held in its own name
35 or the name of its nominee, except as follows:

1 (1) Investments may be held in the name of a clearing
2 corporation or of a custodian bank or in the name of the
3 nominee of either on the following conditions:

4 (i) The clearing corporation, custodian bank, or nominee
5 must be legally authorized to hold the particular investment
6 for the account of others.

7 (ii) When the investment is evidenced by a certificate
8 and held in the name of a custodian bank or the nominee of
9 a custodian bank, a written agreement shall provide that
10 certificates so deposited shall at all times be kept separate
11 and apart from other deposits with the depository, so that
12 at all times they may be identified as belonging solely to
13 the company making the deposit.

14 (iii) If a clearing corporation is to act as depository,
15 the investment may be merged or held in bulk in the name of
16 the clearing corporation or its nominee with other investments
17 deposited with the clearing corporation by any other person,
18 if a written agreement between the clearing corporation and
19 the company provides that adequate evidence of the deposit
20 is to be obtained and retained by the company or a custodian
21 bank.

22 (2) A company may loan stocks or obligations held by it
23 under this chapter to a broker-dealer registered under the
24 Securities and Exchange Act of 1934 or a member bank. The
25 loan must be evidenced by a written agreement which provides
26 all of the following:

27 (i) That the loan will be fully collateralized by cash
28 or obligations issued or guaranteed by the United States or
29 an agency or an instrumentality of the United States, and
30 that the collateral will be adjusted as necessary each business
31 day during the term of the loan to maintain the required
32 collateralization in the event of market value changes in
33 the loaned securities or collateral.

34 (ii) That the loan may be terminated by the company at
35 any time, and that the borrower will return the loaned stocks

1 or obligations or equivalent stocks or obligations within
2 five business days after termination.

3 (iii) That the company has the right to retain the
4 collateral or use the collateral to purchase investments
5 equivalent to the loaned securities if the borrower defaults
6 under the terms of the agreement, and that the borrower remains
7 liable for any losses and expenses incurred by the company
8 due to default that are not covered by the collateral.

9 (3) A company may participate through a member bank in
10 the United States federal reserve book-entry system, and the
11 records of the member bank shall at all times show that the
12 investments are held for the company or for specific accounts
13 of the company.

14 (4) An investment may consist of an individual interest
15 in a pool of obligations or a fractional interest in a single
16 obligation if the certificate of participation or interest
17 or the confirmation of participation or interest in the
18 investment is issued in the name of the company or the name
19 of the custodian bank or the nominee of either and if the
20 interest as evidenced by the certificate or confirmation
21 is, if held by a custodian bank, kept separate and apart from
22 the investments of others so that at all times the
23 participation may be identified as belonging solely to the
24 company making the investment.

25 (5) Transfers of ownership of investments held as de-
26 scribed in paragraph a, subparagraph (1), subdivision (iii),
27 and subparagraphs (3) and (4) may be evidenced by bookkeep-
28 ing entry on the books of the issuer of the investment, its
29 transfer or recording agent, or the clearing corporation
30 without physical delivery of certificate, if any, evidencing
31 the company's investment.

32 b. Except as provided in paragraph a, subparagraph (5),
33 if an investment is not evidenced by a certificate, adequate
34 evidence of the company's investment shall be obtained from
35 the issuer or its transfer or recording agent and retained

1 by the company, a custodian bank, or clearing corporation.
2 Adequate evidence, for purposes of this paragraph, means a
3 written receipt or other verification issued by the depository
4 or issuer or a custodian bank which shows that the investment
5 is held for the company.

6 4. INVESTMENTS. Except as otherwise permitted by this
7 section, a company organized under this chapter may invest
8 in the following and no other:

9 a. UNITED STATES GOVERNMENT OBLIGATIONS. Obligations
10 issued or guaranteed by the United States or an agency or
11 instrumentality of the United States.

12 b. CERTAIN DEVELOPMENT BANK OBLIGATIONS. Obligations
13 issued or guaranteed by the international bank for
14 reconstruction and development, the Asian development bank,
15 the inter-American development bank, the export-import bank,
16 the world bank, or any United States government-sponsored
17 organization of which the United States is a member, if the
18 principal and interest is payable in United States dollars.
19 A company shall not invest more than five percent of its total
20 admitted assets in the obligations of any one of these banks
21 or organizations, and shall not invest more than a total of
22 ten percent of its total admitted assets in the obligations
23 authorized by this paragraph.

24 c. STATE OBLIGATIONS. Obligations issued or guaranteed
25 by a state of the United States, or a political subdivision
26 of a state, or an instrumentality of a state or political
27 subdivision of a state.

28 d. CANADIAN GOVERNMENT OBLIGATIONS. Obligations issued
29 or guaranteed by the Dominion of Canada, or by an agency or
30 province of Canada, or by a political subdivision of a
31 province, or by an instrumentality of any of those provinces
32 or political subdivisions.

33 e. CORPORATE AND BUSINESS TRUST OBLIGATIONS. Obligations
34 issued, assumed, or guaranteed by a corporation or business
35 trust organized under the laws of the United States or a state

1 of the United States, or the laws of Canada or a province
2 of Canada, provided that a company shall not invest more than
3 five percent of its admitted assets in the obligations of
4 any one corporation or business trust.

5 f. STOCKS. A company may invest in common stocks, common
6 stock equivalents, mutual fund shares, securities convertible
7 into common stocks or common stock equivalents, or preferred
8 stocks issued or guaranteed by a corporation incorporated
9 under the laws of the United States or a state of the United
10 States, or the laws of Canada or a province of Canada.

11 (1) Stocks purchased under this section shall not exceed
12 one hundred percent of capital and surplus. With the approval
13 of the commissioner, a company may invest any amount in common
14 stocks, preferred stocks, or other securities of one or more
15 subsidiaries provided that after such investments the insurer's
16 surplus as regards policyholders will be reasonable in relation
17 to the insurer's outstanding liabilities and adequate to its
18 financial needs.

19 (2) A company shall not invest more than ten percent of
20 its capital and surplus in the stocks of any one corporation.

21 g. REAL ESTATE MORTGAGES. Mortgages and other interest-
22 bearing securities that are first liens upon real estate
23 located within this state or any other state of the United
24 States. However, a mortgage or other security does not qualify
25 as an investment under this paragraph if at the date of
26 acquisition the total indebtedness secured by the lien exceeds
27 seventy-five percent of the value of the property that is
28 subject to the lien. Improvements shall not be considered
29 in estimating value unless the owner contracts to keep them
30 insured during the life of the loan in one or more reliable
31 fire insurance companies authorized to transact business in
32 this state and for a sum at least equal to the excess of the
33 loan above seventy-five percent of the value of the ground,
34 exclusive of improvements, and unless this insurance is payable
35 in case of loss to the company investing its funds as its

1 interest may appear at the time of loss. For the purpose
2 of this section, a lien upon real estate shall not be held
3 or construed to be other than a first lien by reason of the
4 fact that drainage or other improvement assessments have been
5 levied against the real estate covered by the lien, whether
6 or not the installment of the assessments have matured, but
7 in determining the value of the real estate for loan purposes
8 the amount of drainage or other assessment tax that is unpaid
9 shall be first deducted.

10 h. REAL ESTATE.

11 (1) Except as provided in subparagraphs (2), (3) and (4)
12 of this paragraph, a company may acquire, hold, and convey
13 real estate only as follows:

14 (i) Real estate mortgaged to it in good faith as security
15 for loans previously contracted, or for moneys due.

16 (ii) Real estate conveyed to it in satisfaction of debts
17 previously contracted in the course of its dealings.

18 (iii) Real estate purchased at sales on judgments, decrees,
19 or mortgages obtained or made for debts previously contracted
20 in the course of its dealings.

21 (iv) Real estate subject to a contract for deed under
22 which the company holds the vendor's interest to secure the
23 payments the vendee is required to make under the contract.

24 All real estate specified in subdivisions (i), (ii), and
25 (iii) of this subparagraph shall be sold and disposed of
26 within three years after the company acquires title to it,
27 or within three years after the real estate ceases to be
28 necessary for the accommodation of the company's business,
29 and the company shall not hold any of those properties for
30 a longer period unless the company elects to hold the property
31 under another paragraph of this section, or unless the company
32 procures a certificate from the commissioner of insurance
33 that its interest will suffer materially by the forced sale
34 of those properties and that the time for the sale is extended
35 to the time the commissioner directs in the certificate.

1 (2) A company may acquire, hold, and convey real estate
2 as required for the convenient accommodation and transaction
3 of its business.

4 (3) A company may acquire real estate or an interest in
5 real estate as an investment for the production of income,
6 and may hold, improve, or otherwise develop, subdivide, lease,
7 sell, and convey real estate so acquired directly or as a
8 joint venture or through a limited or general partnership
9 in which the company is a partner.

10 (4) A company may also acquire and hold real estate if
11 the purpose of the acquisition is to enhance the sale value
12 of real estate previously acquired and held by the company
13 under this paragraph, and if the company expects the real
14 estate so acquired to qualify under subparagraph (2) or (3)
15 of this paragraph within three years after acquisition.

16 (5) A company may, after securing the written approval
17 of the commissioner, acquire and hold real estate for the
18 purpose of providing necessary living quarters for its
19 employees. However, the company shall dispose of the real
20 estate within three years after it has ceased to be necessary
21 for that purpose unless the commissioner agrees to extend
22 the holding period upon application by the company.

23 (6) A company shall not invest more than twenty-five
24 percent of its total admitted assets in real estate. The
25 cost of a parcel of real estate held for both the accommodation
26 of business and for the production of income shall be allocated
27 between the two uses annually. A company shall not invest
28 more than ten percent of its total admitted assets in real
29 estate held under subparagraph (3) of this paragraph.

30 (7) A company is not required to divest itself of real
31 estate assets owned or contracted for prior to the effective
32 date of this Act in order to comply with the limitations
33 established under this paragraph.

34 i. FOREIGN INVESTMENTS. Obligations of and investments
35 in foreign countries, as follows:

1 (1) A company may acquire and hold other investments in
2 foreign countries that are required to be held as a condition
3 of doing business in those countries.

4 (2) A company may invest not more than two percent of
5 its admitted assets in the obligations of foreign governments,
6 corporations, or business trusts, or in the stocks or stock
7 equivalents of foreign corporations or business trusts and
8 then only if the obligations, stocks, or stock equivalents
9 are regularly traded on the New York, London, Paris, Zurich,
10 Hong Kong, Toronto, or Tokyo stock exchange, or a similar
11 exchange approved by the commissioner by rule or order.

12 j. PERSONAL PROPERTY UNDER LEASE. Personal property for
13 intended lease or rental by the company in the United States
14 or Canada. A company shall not invest more than five percent
15 of its admitted assets under this paragraph.

16 k. COLLATERAL LOANS. Obligations secured by the pledge
17 of an investment authorized by paragraphs a through j, subject
18 to the following conditions:

19 (1) The pledged investment shall be legally assigned or
20 delivered to the company.

21 (2) The pledged investment shall at the time of purchase
22 have a market value of at least one hundred ten percent of
23 the amount of the unpaid balance of the obligations.

24 (3) The company shall reserve the right to declare the
25 obligation immediately due and payable if at any time after
26 purchase the security depreciates to the point where the
27 investment would not qualify under subparagraph (2) of this
28 paragraph. However, additional qualifying security may be
29 pledged to allow the investment to remain qualified.

30 1. OPTIONS TRANSACTIONS.

31 (1) A domestic fire and casualty company may only engage
32 in the following transactions in options on an exchange and
33 only when in accordance with the rules of the exchange on
34 which the transactions take place:

35 (i) The sale of exchange-traded covered options.

1 (ii) The purchase of exchange-traded covered options
2 solely in closing purchase transactions.

3 (2) The commissioner shall adopt rules pursuant to chapter
4 17A regulating option sales under this subparagraph.

5 m. OTHER INVESTMENTS.

6 (i) A company organized under this chapter may invest
7 up to one percent of its admitted assets in securities or
8 property of any kind, without restrictions or limitations
9 except those imposed on business corporations in general.

10 (ii) A company organized under this chapter may invest
11 its assets in any additional forms not specifically included
12 in paragraphs a through n when authorized by rules adopted
13 by the commissioner.

14 n. RULES. The commissioner may adopt rules pursuant to
15 chapter 17A to carry out the purposes and provisions of this
16 section.

17 Sec. 2. Section 515B.5, subsection 1, paragraph a, Code
18 1981, is amended to read as follows:

19 a. Be obligated to the extent of the covered claims
20 existing prior to the determination of insolvency and arising
21 within thirty days after the determination of insolvency,
22 or before the policy expiration date if less than thirty days
23 after the determination, or before the insured replaces the
24 policy or on request effects cancellation if ~~he~~ the insured
25 does so within thirty days of the determination. ~~Such~~ This
26 obligation shall include only that amount of each covered
27 claim which is in excess of one hundred dollars and less than
28 ~~three~~ five hundred thousand dollars, except that the
29 association shall pay the full amount of any covered claim
30 arising out of a workers' compensation policy. In no event
31 shall the association be obligated to a policyholder or
32 claimant in an amount in excess of the ~~face-amount~~ specified
33 limits of the policy from which the claim arises.

34 Sec. 3. Section 521A.2, subsection 3, paragraph a, Code
35 1981, is amended to read as follows:

1 a. Invest, in common stock, preferred stock, debt
2 obligations, and other securities of one or more subsidiaries,
3 amounts which do not exceed ~~the lesser of ten percent of such~~
4 ~~insurer's assets or~~ fifty percent of ~~such~~ the insurer's surplus
5 as regards policyholders, provided that after such investments
6 the insurer's surplus as regards policyholders will be
7 reasonable in relation to the insurer's outstanding liabilities
8 and adequate to its financial needs. In calculating the
9 amount of such investments both of the following shall be
10 included:

11 Sec. 4. Section 521A.3, subsection 4, paragraph a, subpara-
12 graph (3), Code 1981, is amended to read as follows:

13 (3) The financial condition of any acquiring party is
14 such as might jeopardize the financial stability of the
15 insurer, or prejudice the interest of its policyholders ~~or~~
16 ~~the interests of any remaining securityholders who are~~
17 ~~unaffiliated with such acquiring party.~~

18 Sec. 5. Section 521A.3, subsection 4, paragraph a,
19 subparagraph (4), Code 1981, is amended by striking the
20 subparagraph.

21 Sec. 6. Section 521A.3, subsection 6, paragraph a, Code
22 1981, is amended by striking the paragraph.

23 Sec. 7. Section 515.34, Code 1981, is repealed.

24 EXPLANATION

25 The bill relates to the regulation of insurance companies
26 other than life insurance companies.

27 Section 1 strikes the existing provisions which govern
28 investments by all insurance companies except life companies,
29 and inserts revised language. Generally speaking, the revised
30 language authorizes a broader range of investment. Section
31 1 also incorporates a revised version of language previously
32 contained in a different Code section, relating to investments
33 in real estate.

34 Section 2 amends the insurance company guaranty association
35 law to modify a provision that limits the liability of the

1 guaranty association with respect to any given policy claim.
2 Presently, the maximum liability of the association is \$300,000
3 or the policy limit, whichever is less. As amended, the maxi-
4 mum liability of the company on any claim would be \$500,000
5 or a lesser policy limit.

6 Sections 3 through 6 strike some language from chapter
7 521A relating to the regulation of insurance company holding
8 corporations, the stricken language apparently being of no
9 effect because of preemption by federal law.

10 Section 7 repeals a Code section that is incorporated into
11 the revised version of section 515.35.

12 The bill would take effect July 1 following enactment.

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HOUSE FILE 2358

AN ACT

RELATING TO THE REGULATION OF INSURANCE TO THE EXTENT OF AMENDING OR REPEALING PROVISIONS IN CODE SECTIONS 515.34, 515.35, 515B.5, 521A.2 AND 521A.3 TO PROVIDE FOR THE REGULATION OF THE INVESTMENTS OF INSURANCE COMPANIES OTHER THAN LIFE, TO MODIFY THE MAXIMUM LIABILITY OF THE IOWA INSURANCE GUARANTY ASSOCIATION, AND TO REMOVE CERTAIN PROVISIONS REGULATING INSURANCE HOLDING COMPANIES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 515.35, Code 1981, as amended by Acts of the Sixty-ninth General Assembly, 1981 Session, chapter 169, section 1, is amended by striking the section and inserting in lieu thereof the following:

515.35 INVESTMENTS.

1. GENERAL CONSIDERATIONS. The following considerations apply in the interpretation of this section:

- a. This section applies to the investments of insurance companies other than life insurance companies.
- b. The purpose of this section is to protect and further the interests of policyholders, claimants, creditors, and the public by providing standards for the development and administration of programs for the investment of the assets of companies organized under this chapter. These standards, and the investment programs developed by companies, shall take into account the safety of the company's principal.

investment yield and growth, stability in the value of the investment, and liquidity necessary to meet the company's expected business needs, and investment diversification.

c. Financial terms relating to insurance companies have the meanings assigned to them under statutory accounting methods. Financial terms relating to companies other than insurance companies have the meanings assigned to them under generally accepted accounting principles.

d. Investments shall be valued in accordance with the valuation procedures established by the national association of insurance commissioners, unless the commissioner requires or finds another method of valuation reasonable under the circumstances.

e. If an investment qualifies under more than one subsection, a company may elect to hold the investment under the subsection of its choice. This section does not prevent a company from electing to hold an investment under a subsection different from the one under which it previously held the investment.

2. DEFINITIONS. For purposes of this section:

- a. "Admitted assets", for purposes of computing percentage limitations on particular types of investments, means the assets which are authorized to be shown on the national association of insurance commissioner's annual statement blank as admitted assets as of the December 31 immediately preceding the date the company acquires the investment.
- b. "Clearing corporation" means as defined in section 554.8102, subsection 3.
- c. "Custodian bank" means as defined in section 554.8102, subsection 4.
- d. "Issuer" means as defined in section 554.8201.
- e. "Member bank" means a national bank, state bank, or trust company which is a member of the United States federal reserve system.

f. "National securities exchange" means an exchange registered under section 6 of the Securities Exchange Act of 1934 or an exchange regulated under the laws of the Dominion of Canada.

g. "Obligations" includes bonds, notes, debentures, transportation equipment certificates, domestic repurchase agreements, and obligations for the payment of money not in default as to payments of principal and interest on the date of investment, which constitute general obligations of the issuer or payable only out of certain revenues or certain funds pledged or otherwise dedicated for payment of principal and interest on the obligations. A lease is an obligation if the lease is assigned to the insurer and is nonterminable by the lessee upon foreclosure of any lien upon the leased property, and if rental payments are sufficient to amortize the investment over the primary lease term.

3. INVESTMENTS IN NAME OF COMPANY OR NOMINEE AND PROHIBITIONS.

a. A company's investments shall be held in its own name or the name of its nominee, except as follows:

(1) Investments may be held in the name of a clearing corporation or of a custodian bank or in the name of the nominee of either on the following conditions:

(i) The clearing corporation, custodian bank, or nominee must be legally authorized to hold the particular investment for the account of others.

(ii) When the investment is evidenced by a certificate and held in the name of a custodian bank or the nominee of a custodian bank, a written agreement shall provide that certificates so deposited shall at all times be kept separate and apart from other deposits with the depository, so that at all times they may be identified as belonging solely to the company making the deposit.

(iii) If a clearing corporation is to act as depository, the investment may be merged or held in bulk in the name of

the clearing corporation or its nominee with other investments deposited with the clearing corporation by any other person, if a written agreement between the clearing corporation and the company provides that adequate evidence of the deposit is to be obtained and retained by the company or a custodian bank.

(2) A company may loan stocks or obligations held by it under this chapter to a broker-dealer registered under the Securities and Exchange Act of 1934 or a member bank. The loan must be evidenced by a written agreement which provides all of the following:

(i) That the loan will be fully collateralized by cash or obligations issued or guaranteed by the United States or an agency or an instrumentality of the United States, and that the collateral will be adjusted as necessary each business day during the term of the loan to maintain the required collateralization in the event of market value changes in the loaned securities or collateral.

(ii) That the loan may be terminated by the company at any time, and that the borrower will return the loaned stocks or obligations or equivalent stocks or obligations within five business days after termination.

(iii) That the company has the right to retain the collateral or use the collateral to purchase investments equivalent to the loaned securities if the borrower defaults under the terms of the agreement, and that the borrower remains liable for any losses and expenses incurred by the company due to default that are not covered by the collateral.

(3) A company may participate through a member bank in the United States federal reserve book-entry system, and the records of the member bank shall at all times show that the investments are held for the company or for specific accounts of the company.

(4) An investment may consist of an individual interest in a pool of obligations or a fractional interest in a single

obligation if the certificate of participation or interest or the confirmation of participation or interest in the investment is issued in the name of the company or the name of the custodian bank or the nominee of either and if the interest as evidenced by the certificate or confirmation is, if held by a custodian bank, kept separate and apart from the investments of others so that at all times the participation may be identified as belonging solely to the company making the investment.

(5) Transfers of ownership of investments held as described in paragraph a, subparagraph (1), subdivision (iii), and subparagraphs (3) and (4) may be evidenced by bookkeeping entry on the books of the issuer of the investment, its transfer or recording agent, or the clearing corporation without physical delivery of certificate, if any, evidencing the company's investment.

b. Except as provided in paragraph a, subparagraph (5), if an investment is not evidenced by a certificate, adequate evidence of the company's investment shall be obtained from the issuer or its transfer or recording agent and retained by the company, a custodian bank, or clearing corporation. Adequate evidence, for purposes of this paragraph, means a written receipt or other verification issued by the depository or issuer or a custodian bank which shows that the investment is held for the company.

4. INVESTMENTS. Except as otherwise permitted by this section, a company organized under this chapter may invest in the following and no other:

a. UNITED STATES GOVERNMENT OBLIGATIONS. Obligations issued or guaranteed by the United States or an agency or instrumentality of the United States.

b. CERTAIN DEVELOPMENT BANK OBLIGATIONS. Obligations issued or guaranteed by the international bank for reconstruction and development, the Asian development bank, the inter-American development bank, the export-import bank,

the world bank, or any United States government-sponsored organization of which the United States is a member, if the principal and interest is payable in United States dollars. A company shall not invest more than five percent of its total admitted assets in the obligations of any one of these banks or organizations, and shall not invest more than a total of ten percent of its total admitted assets in the obligations authorized by this paragraph.

c. STATE OBLIGATIONS. Obligations issued or guaranteed by a state of the United States, or a political subdivision of a state, or an instrumentality of a state or political subdivision of a state.

d. CANADIAN GOVERNMENT OBLIGATIONS. Obligations issued or guaranteed by the Dominion of Canada, or by an agency or province of Canada, or by a political subdivision of a province, or by an instrumentality of any of those provinces or political subdivisions.

e. CORPORATE AND BUSINESS TRUST OBLIGATIONS. Obligations issued, assumed, or guaranteed by a corporation or business trust organized under the laws of the United States or a state of the United States, or the laws of Canada or a province of Canada, provided that a company shall not invest more than five percent of its admitted assets in the obligations of any one corporation or business trust.

f. STOCKS. A company may invest in common stocks, common stock equivalents, mutual fund shares, securities convertible into common stocks or common stock equivalents, or preferred stocks issued or guaranteed by a corporation incorporated under the laws of the United States or a state of the United States, or the laws of Canada or a province of Canada.

(1) Stocks purchased under this section shall not exceed one hundred percent of capital and surplus. With the approval of the commissioner, a company may invest any amount in common stocks, preferred stocks, or other securities of one or more subsidiaries provided that after such investments the insurer's

surplus as regards policyholders will be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs.

(2) A company shall not invest more than ten percent of its capital and surplus in the stocks of any one corporation.

g. REAL ESTATE MORTGAGES. Mortgages and other interest-bearing securities that are first liens upon real estate located within this state or any other state of the United States. However, a mortgage or other security does not qualify as an investment under this paragraph if at the date of acquisition the total indebtedness secured by the lien exceeds seventy-five percent of the value of the property that is subject to the lien. Improvements shall not be considered in estimating value unless the owner contracts to keep them insured during the life of the loan in one or more reliable fire insurance companies authorized to transact business in this state and for a sum at least equal to the excess of the loan above seventy-five percent of the value of the ground, exclusive of improvements, and unless this insurance is payable in case of loss to the company investing its funds as its interest may appear at the time of loss. For the purpose of this section, a lien upon real estate shall not be held or construed to be other than a first lien by reason of the fact that drainage or other improvement assessments have been levied against the real estate covered by the lien, whether or not the installment of the assessments have matured, but in determining the value of the real estate for loan purposes the amount of drainage or other assessment tax that is unpaid shall be first deducted.

h. REAL ESTATE.

(1) Except as provided in subparagraphs (2), (3) and (4) of this paragraph, a company may acquire, hold, and convey real estate only as follows:

(i) Real estate mortgaged to it in good faith as security for loans previously contracted, or for moneys due.

(ii) Real estate conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

(iii) Real estate purchased at sales on judgments, decrees, or mortgages obtained or made for debts previously contracted in the course of its dealings.

(iv) Real estate subject to a contract for deed under which the company holds the vendor's interest to secure the payments the vendee is required to make under the contract.

All real estate specified in subdivisions (i), (ii), and (iii) of this subparagraph shall be sold and disposed of within three years after the company acquires title to it, or within three years after the real estate ceases to be necessary for the accommodation of the company's business, and the company shall not hold any of those properties for a longer period unless the company elects to hold the property under another paragraph of this section, or unless the company procures a certificate from the commissioner of insurance that its interest will suffer materially by the forced sale of those properties and that the time for the sale is extended to the time the commissioner directs in the certificate.

(2) A company may acquire, hold, and convey real estate as required for the convenient accommodation and transaction of its business.

(3) A company may acquire real estate or an interest in real estate as an investment for the production of income, and may hold, improve, or otherwise develop, subdivide, lease, sell, and convey real estate so acquired directly or as a joint venture or through a limited or general partnership in which the company is a partner.

(4) A company may also acquire and hold real estate if the purpose of the acquisition is to enhance the sale value of real estate previously acquired and held by the company under this paragraph, and if the company expects the real estate so acquired to qualify under subparagraph (2) or (3) of this paragraph within three years after acquisition.

(5) A company may, after securing the written approval of the commissioner, acquire and hold real estate for the purpose of providing necessary living quarters for its employees. However, the company shall dispose of the real estate within three years after it has ceased to be necessary for that purpose unless the commissioner agrees to extend the holding period upon application by the company.

(6) A company shall not invest more than twenty-five percent of its total admitted assets in real estate. The cost of a parcel of real estate held for both the accommodation of business and for the production of income shall be allocated between the two uses annually. A company shall not invest more than ten percent of its total admitted assets in real estate held under subparagraph (3) of this paragraph.

(7) A company is not required to divest itself of real estate assets owned or contracted for prior to the effective date of this Act in order to comply with the limitations established under this paragraph.

i. FOREIGN INVESTMENTS. Obligations of and investments in foreign countries, as follows:

(1) A company may acquire and hold other investments in foreign countries that are required to be held as a condition of doing business in those countries.

(2) A company may invest not more than two percent of its admitted assets in the obligations of foreign governments, corporations, or business trusts, or in the stocks or stock equivalents of foreign corporations or business trusts and then only if the obligations, stocks, or stock equivalents are regularly traded on the New York, London, Paris, Zurich, Hong Kong, Toronto, or Tokyo stock exchange, or a similar exchange approved by the commissioner by rule or order.

j. PERSONAL PROPERTY UNDER LEASE. Personal property for intended lease or rental by the company in the United States or Canada. A company shall not invest more than five percent of its admitted assets under this paragraph.

k. COLLATERAL LOANS. Obligations secured by the pledge of an investment authorized by paragraphs a through j, subject to the following conditions:

(1) The pledged investment shall be legally assigned or delivered to the company.

(2) The pledged investment shall at the time of purchase have a market value of at least one hundred ten percent of the amount of the unpaid balance of the obligations.

(3) The company shall reserve the right to declare the obligation immediately due and payable if at any time after purchase the security depreciates to the point where the investment would not qualify under subparagraph (2) of this paragraph. However, additional qualifying security may be pledged to allow the investment to remain qualified.

l. OPTIONS TRANSACTIONS.

(1) A domestic fire and casualty company may only engage in the following transactions in options on an exchange and only when in accordance with the rules of the exchange on which the transactions take place:

(i) The sale of exchange-traded covered options.

(ii) The purchase of exchange-traded covered options solely in closing purchase transactions.

(2) The commissioner shall adopt rules pursuant to chapter 17A regulating option sales under this subparagraph.

m. OTHER INVESTMENTS.

(1) A company organized under this chapter may invest up to one percent of its admitted assets in securities or property of any kind, without restrictions or limitations except those imposed on business corporations in general.

(ii) A company organized under this chapter may invest its assets in any additional forms not specifically included in paragraphs a through n when authorized by rules adopted by the commissioner.

n. RULES. The commissioner may adopt rules pursuant to chapter 17A to carry out the purposes and provisions of this section.

Sec. 2. Section 515B.5, subsection 1, paragraph a, Code 1981, is amended to read as follows:

a. Be obligated to the extent of the covered claims existing prior to the determination of insolvency and arising within thirty days after the determination of insolvency, or before the policy expiration date if less than thirty days after the determination, or before the insured replaces the policy or on request effects cancellation if he the insured does so within thirty days of the determination. ~~Such~~ This obligation shall include only that amount of each covered claim which is in excess of one hundred dollars and less than ~~three~~ five hundred thousand dollars, except that the association shall pay the full amount of any covered claim arising out of a workers' compensation policy. In no event shall the association be obligated to a policyholder or claimant in an amount in excess of the ~~face amount specified~~ limits of the policy from which the claim arises.

Sec. 3. Section 521A.2, subsection 3, paragraph a, Code 1981, is amended to read as follows:

a. Invest, in common stock, preferred stock, debt obligations, and other securities of one or more subsidiaries, amounts which do not exceed ~~the lesser of ten percent of such insurer's assets or~~ fifty percent of ~~such~~ the insurer's surplus as regards policyholders, provided that after such investments the insurer's surplus as regards policyholders will be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs. In calculating the amount of such investments both of the following shall be included:

Sec. 4. Section 521A.3, subsection 4, paragraph a, subparagraph (3), Code 1981, is amended to read as follows:

(3) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders ~~or the interests of any remaining nonpolicyholders who are unaffected with such acquiring party.~~

Sec. 5. Section 521A.3, subsection 4, paragraph a, subparagraph (4), Code 1981, is amended by striking the subparagraph.

Sec. 6. Section 521A.3, subsection 6, paragraph a, Code 1981, is amended by striking the paragraph.

Sec. 7. Section 515.34, Code 1981, is repealed.

DEIWYN STROMER
Speaker of the House

TERRY E. BRANSTAD
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2358, Sixty-ninth General Assembly.

ELIZABETH A. ISAACSON
Chief Clerk of the House

Approved *March 26*, 1982

ROBERT D. RAY
Governor