

# HOUSE RESEARCH

## Bill Summary

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### Overview

This bill makes a variety of technical, clarifying, and substantive changes in laws governing financial institutions and in laws regulating annuity contracts, which are provided by insurance companies. Sections 10 to 14 involve annuity contracts, and the other sections involve financial institutions.

#### Section

- 1** **General.** Reduces required minimum frequency of financial examinations of financial institutions by the commerce department from one every 18 months to once every 24 months.
- 2** **Notice of filing application; publication.** Eliminates a requirement that notice of a proposed new state bank be mailed to existing nearby banks.
- 3** **Permissive closing on December 24 and 31.** Permits state banks to close at noon on December 24 and 31.
- 4** **Banking institutions; certain relocations, applications, notice, approval.** Same as section 2 above, but applies to relocations of the main office of a bank.
- 5** **Application.** Corrects a cross-reference.
- 6** **Advertising.** Eliminates a restriction on advertising related to electronic financial terminals. The restriction prohibits a state bank from indicating that it owns the terminal.
- 7** **Directors and officers, restricted use of bank funds; dealings with bank.** Eliminates requirement of board of directors' approval of loans to bank directors, officers, or employees.
- 8** **Discounts.** Permits more types of deposit accounts to be pledged as collateral for a bank loan.
- 9** **Report and audit schedule.** Same as section 1, but applies to examination of state credit

## Section

unions.

- 10 Non-forfeiture benefits in annuities.** Requires insurers to grant a written request by an annuity contract owner to receive a paid-up annuity benefit prior to the scheduled cessation of payments by the contract owner. This is called a non-forfeiture provision.
- Makes it optional, rather than mandatory, as under current law, for an insurer to reserve the right to defer payment of a cash surrender benefit. Permits the deferral period to be less than six months. Requires approval of the commissioner for a deferral provision, which the insurer must justify on the basis of necessity and fairness to all contract holders.
- 11 Minimum values.** Eliminates language restricting this subdivision of current law to annuity contracts providing for flexible considerations. Eliminates three percent as the required rate of interest to be credited to accumulations for purposes of minimum non-forfeiture benefits and substitutes a flexible rate of interest. The flexible interest rate is the lesser of three percent and a rate based upon 5-year U.S. Treasury securities, with certain adjustments, limitations, and redeterminations. Permits the minimum non-forfeiture accumulation to be reduced by prior withdrawals, an annual contract charge of \$50, any premium tax paid by the insurer on the annuity contract and not credited back, and any amount owed to the insurer on the contract. Makes the net consideration used to determine the minimum non-forfeiture amount a flat 87.5 percent of the gross consideration paid by the contract owner.
- 12 Calculation of present value.** Makes a change to conform to the use of flexible interest rates for calculation of non-forfeiture benefits.
- 13 Cash surrender benefits.** Provides that the cash surrender value of an annuity contract is based upon a present value based upon the interest rate used in the annuity contract to accumulate the considerations, rather than the net considerations.
- 14 Insurer electing to comply.** Permits insurers to comply with sections 10 to 14 of this act prior to August 1, 2005. Requires compliance as of that date.
- 15 In lieu of surety bond.** Permits financial institutions to post as collateral for local government deposits unrated general obligation securities issued by a local government, but only as collateral for deposits of that local government.
- 16 Amount.** Permits a collateral to deposit ratio of 100 percent (instead of 110 percent) for local government deposits, if the collateral is irrevocable standby letters of credit issued by a Federal Home Loan Bank. Retains the 110 percent requirement for all other collateral.
- 17 Organization of financial corporations.** Permits board members of state banks to be non-residents of this state, if they live within 50 miles of the bank's main office.
- 18 Voting; how regulated.** Eliminates a restriction on voting recently-transferred bank stock.
- 19 Examination; audit.** Similar to section 1, but applies to debt prorate companies.
- 20 Repealer.** Repeals three department of commerce rules.
- 21 Effective dates.** Makes all sections except 10 to 14 effective immediately. Makes sections 10 to 14 effective August 1, 2003, and apply to annuity contracts issued on or after that date.