

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

---

Prepared By: The Professional Staff of the Committee on Commerce and Tourism

---

BILL: SB 356

INTRODUCER: Senator Abruzzo

SUBJECT: Financial Guaranty Insurance Corporations

DATE: March 29, 2013

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Knudson</u>	<u>Burgess</u>	<u>BI</u>	<b>Favorable</b>
2.	<u>Siples</u>	<u>Hrdlicka</u>	<u>CM</u>	<b>Pre-meeting</b>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

---

**I. Summary:**

SB 356 allows a mutual insurance company to transact financial guaranty insurance business in Florida.

This bill substantially amends ss. 627.971 and 627.972, F.S.

**II. Present Situation:**

**Organization of Insurance Companies**

A prerequisite for authorization to transact insurance in this state is that an insurer must be an incorporated stock insurer, an incorporated mutual insurer, or a reciprocal insurer.<sup>1</sup> Florida law provides the following definitions for these three types of insurers:

- A stock insurer is an incorporated insurer with its capital divided into shares and owned by its stockholders.<sup>2</sup>
- A mutual insurer is an incorporated insurer without permanent capital stock, the governing body of which is elected in accordance with part I of ch. 628, F.S.<sup>3</sup> A mutual insurance company is owned by its policyholders.<sup>4</sup>

---

<sup>1</sup> Section 624.404, F.S.

<sup>2</sup> Section 628.021, F.S.

<sup>3</sup> Section 628.031, F.S.

<sup>4</sup> Section 628.301, F.S.

- A reciprocal insurer is an unincorporated aggregation of subscribers operating individually and collectively through an attorney in fact to provide reciprocal insurance<sup>5</sup> among themselves.<sup>6</sup>

### **Financial Guaranty Insurance**

Financial guaranty insurance is a surety bond, insurance policy, an indemnity contract issued by an insurer, or a similar guaranty, under which loss is payable once the insured claimant, obligee, or indemnitee provides proof of an occurrence of:

- The failure, as a result of a financial default or insolvency of an obligor on a debt instrument or other monetary obligation<sup>7</sup> to make principal, interest, premium, dividend, or purchase price payments when due;
- Changes in interest rate levels or the differential in interest rates between various markets or products;
- Changes in currency exchange rates;
- Changes in the value of specific assets or commodities, financial or commodity indices, or price levels in general; or
- Other events that the Office of Insurance Regulation determines are substantially similar to any of the foregoing.<sup>8</sup>

A financial guaranty insurance company may only be organized as a stock insurer, in the same manner as a stock property and casualty insurer.<sup>9</sup> To transact financial guaranty insurance in Florida, the insurer must have an initial surplus to policyholders of \$50 million when initially licensed and maintains a surplus of at least \$35 million.<sup>10</sup> The insurer must also establish a specified contingency reserve, and meet other requirements.<sup>11</sup> Financial guaranty insurance corporations are subject to all provisions of the Florida Insurance Code applicable to property and casualty insurance, to the extent they are not inconsistent with part XX, ch. 627, F.S.<sup>12</sup> An authorized property and casualty insurer may also transact such insurance if it has a total policyholder surplus of greater than \$100 million, not more than 20 percent of its total net premiums and policyholder surplus is used to transact financial guaranty insurance, and other conditions are met.<sup>13</sup>

---

<sup>5</sup> Reciprocal insurance consists of interexchange among persons (subscribers) of reciprocal agreements of indemnity that are effectuated through an attorney in fact common to all subscribers. s. 629.011, F.S.

<sup>6</sup> Section 629.021, F.S.

<sup>7</sup> An “other monetary obligation” includes common or preferred stock guaranteed under a surety bond, insurance policy, or indemnity contract. The insurance is available whether the obligation is incurred directly or as guarantor by or on behalf of another obligor who also defaulted.

<sup>8</sup> See Section 627.971, F.S.

<sup>9</sup> Section 627.972(1), F.S.

<sup>10</sup> Section 627.972(2), F.S.

<sup>11</sup> Section 627.972(3)-(5), F.S.

<sup>12</sup> Section 627.972(1)(c), F.S.

<sup>13</sup> Section 627.973(1), F.S.

**III. Effect of Proposed Changes:**

**Section 1** amends s. 627.971, F.S., to add mutual insurer to the definition of a financial guaranty insurance corporation that will allow mutual insurers to be licensed to transact financial guaranty insurance business in Florida.

**Section 2** amends s. 627.972, F.S., to provide that a financial guaranty insurance corporation may be organized as a mutual insurer. If the corporation is organized as a mutual insurer, it must be organized and licensed in accordance with the provisions of the Florida Insurance Code.

**Section 3** provides that this act shall take effect upon becoming a law.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Fiscal Impact Statement:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

To the extent that mutual insurers become licensed to transact financial guaranty insurance business in this state, there will be a positive impact.

**C. Government Sector Impact:**

None.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Additional Information:**

- A. **Committee Substitute – Statement of Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

- B. **Amendments:**

None.

---

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

---