STATE OF OKLAHOMA

2nd Session of the 54th Legislature (2014)

SENATE BILL 2025 By: Newberry

AS INTRODUCED

An Act relating to insurance; establishing a statutory premium reserve for domestic title insurers; setting rates and calculations for premium reserves; providing for codification; and providing an effective date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 5007 of Title 36, unless there is created a duplication in numbering, reads as follows:

A. Statutory Premium Reserve Required.

1. Each domestic title insurer doing title insurance business under this chapter shall establish and maintain a statutory premium reserve during the period and for the uses and purposes provided by this article, which shall at all times and for all purposes be deemed and shall constitute unearned portions of the original premium, and shall be charged as a reserve liability of that insurer in determining its financial condition.

2. The reserve required under this section shall be cumulative. The reserve shall be established and shall consist of the amounts required under this article.

B. Annual Additions to Reserves for Calendar Year 2014 and Thereafter.

1. For companies with annual gross premiums of Twenty Million Dollars ($20,000,000.00) or more, beginning with premiums received on January 1, 2015, the statutory premium reserve shall consist of an amount not less than five percent (5%) of the sum of the following, as set forth in the title insurer's annual statement:

a. the direct premium written by the title insurer, and

b. premium for reinsurance assumed less premium for reinsurance ceded during the year.

2. Companies with annual gross premiums of less than Twenty Million Dollars ($20,000,000.00) may, at their election, establish premium reserves as set forth in paragraph 1 of subsection B of this section, or alternatively, in an amount not less than the title insurer's reserve for incurred but not reported claims (IBNR) plus the reserve for unallocated loss adjustment expense (ULAE). For companies electing the latter option, the remainder of subsections B and C of this section do not apply.

3. The statutory premium reserve calculations in subsection B of this section are minimum amounts. A title insurance underwriter may set aside amounts in excess of the minimum reserve requirement.

4. Additions to the statutory premium reserve set aside for title insurance policies written or assumed under paragraph 1 of subsection B of this section shall be reduced over a 20-year period beginning in the year after the year in which the policies are written or assumed, as provided by paragraph 5 of this subsection, no faster than:

a. thirty-five percent (35%) of the additions in the first year succeeding the year of addition,

b. fifteen percent (15%) of the additions in each of the succeeding two years,

c. ten percent (10%) of the additions in the next succeeding year,

d. three percent (3%) of the additions in the next three succeeding years,

e. two percent (2%) of the additions in the next three succeeding years, and

f. one percent (1%) of the additions in the next ten succeeding years.

5. The annual reductions under paragraph 4 of subsection B of this section shall be made in increments of one-fourth (1/4) of the appropriate percentage of the additions on March 31, June 30, September 30, and December 31 of each year.

C. Establishment of Reserves for the Periods After 2014.

1. In addition to the requirements imposed under this section, each domestic title insurer shall compute a total statutory premium reserve balance for all policy years combined as of December 31, 2013.

2. The balance shall be computed as if this section were in effect during the twenty-year period ending December 31, 2013. For purposes of this calculation, the balance of the reserve as of December 31, 1993, is considered to be zero.

a. If the total minimum statutory premium reserve so calculated exceeds the aggregate amount set aside for statutory premiums in the insurer's most recent annual statement filed with the Insurance Commissioner, the insurer shall, out of total charges for policies of title insurance, increase its statutory premium reserve by an amount equal to one-sixth (1/6) of that deficit in each of the succeeding six (6) years, beginning with calendar year 2014, until the entire deficit has been added. These added amounts (the excess reserve) shall be released in accordance with paragraph 3 of this subsection.

b. If the total minimum statutory premium reserve so calculated is less than the aggregate amount set aside for statutory premiums in the insurer's most recent annual statement filed with the commissioner, the

insurer shall release the excess amount previously set aside by an amount equal to one-sixth (1/6) of that excess in each of the succeeding six (6) years, beginning with calendar year 2014, until the entire excess has been released. The balance of the reserve (equal to the calculated minimum statutory premium reserve) shall be released in accordance with each title insurer's previous method of amortizing its statutory premium reserve.

3. The aggregate of the amounts set aside, if any, in excess of the statutory premium reserve pursuant to subparagraph a of paragraph 2 of this subsection in any calendar year as adjustments to the insurer's statutory premium reserve shall be released from the reserve and restored to net profits, or equity directly, over a period not exceeding ten (10) years pursuant to the following table:

Year of addition	Release
Year 1	Equally over ten (10) years
Year 2	Equally over nine (9) years
Year 3	Equally over eight (8) years
Year 4	Equally over seven (7) years
Year 5	Equally over six (6) years
Year 6	Equally over five (5) years

D. Companies Transitioning to five percent (5%) Statutory Premium Reserve After Calendar Year 2015.

1. Companies with annual gross premiums of less than Twenty Million Dollars ($20,000,000.00) as of January 1, 2014, which elect to set aside reserves in an amount not less than the title insurer's IBNR reserve plus the ULAE reserve as set forth in paragraph 2 of subsection B of this section, may voluntarily transition to the five percent (5%) statutory premium reserve described elsewhere in subsection B of this section beginning in any calendar year subsequent to 2014.

2. Companies with annual gross premiums of less than Twenty Million Dollars ($20,000,000.00) as of January 1, 2015, which have not voluntarily transitioned as set forth in subsection C of this section, but which later earn annual gross premiums of Twenty Million Dollars ($20,000,000.00) or more, shall transition to the five percent (5%) statutory premium reserve standard beginning January 1 of the year after they earn annual gross premiums of Twenty Million Dollars ($20,000,000.00) or more.

3. Companies transitioning to the five percent (5%) statutory premium reserve, as set forth in subsections B and C of this section, may, but need not, establish reserves for years prior to the transitional year in accordance with subsection C of this section. Alternatively, such companies may continue to use the previously established reserves for prior years until such reserves are fully amortized. Reserves established on a go-forward basis

beginning with the year of transition, shall be amortized in accordance with paragraphs 4 and 5 of subsection B of this section.

E. Maintenance of Fund.

The statutory premium reserve and supplemental reserve fund shall be held in cash or invested in first mortgage notes or other securities admissible for investment by Section 5002 this title.

F. Effect of Insolvency or Dissolution.

In the event of the insolvency or dissolution of a title insurer, the statutory premium reserve and supplemental reserve fund shall be used to protect title insurance contract holders, even if there are no accrued title insurance claims and even if there are unpaid obligations of other types.

SECTION 2. This act shall become effective November 1, 2014.

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