

HOUSE BILL No. 5213

October 2, 1991, Introduced by Reps. Hoekman and Brown and referred to the Committee on Insurance.

A bill to amend sections 636, 640, and 901 of Act No. 218 of the Public Acts of 1956, entitled as amended "The insurance code of 1956," section 901 as amended by Act No. 302 of the Public Acts of 1989, being sections 500.636, 500.640, and 500.901 of the Michigan Compiled Laws; and to add sections 904 and 905.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. Sections 636, 640, and 901 of Act No. 218 of the
2 Public Acts of 1956, section 901 as amended by Act No. 302 of the
3 Public Acts of 1989, being sections 500.636, 500.640, and 500.901
4 of the Michigan Compiled Laws, are amended and sections 904 and
5 905 are added to read as follows:

6 Sec. 636. ~~(+) Any~~ EACH domestic property ~~and/or~~ OR
7 marine insurer ~~shall have power to effect reinsurance of~~ MAY

1 REINSURE any risks ~~taken by them respectively~~ THE INSURER
2 TAKES.

3 ~~(2) No insurer transacting property and/or marine insurance~~
4 ~~in this state shall, directly or indirectly, contract for or~~
5 ~~effect reinsurance of any risks in this state except in an~~
6 ~~insurer authorized by the commissioner to transact business~~
7 ~~herein, or in an insurer authorized to transact business in any~~
8 ~~of the United States or the District of Columbia, but only as~~
9 ~~long as such insurer is and remains of the same standard of sol-~~
10 ~~vency as is required and fixed by the laws of this state for~~
11 ~~insurers of the same class transacting business in this state.~~
12 ~~No authorized insurer shall effect reinsurance with an insurer~~
13 ~~not regularly admitted unless such assuming insurer, has been~~
14 ~~approved by the commissioner. In order to secure approval an~~
15 ~~authorized insurer shall notify the commissioner in writing of~~
16 ~~each nonadmitted insurer with which it intends to effect~~
17 ~~reinsurance. The commissioner shall approve or disapprove such~~
18 ~~assuming insurer within 20 days after receipt of the notice. An~~
19 ~~insurer which has not been disapproved within such time shall be~~
20 ~~deemed approved. The commissioner may at any time withdraw his~~
21 ~~approval when he finds that the assuming insurer no longer meets~~
22 ~~the requirements of this section. No insurer authorized by the~~
23 ~~commissioner to transact business in this state shall directly or~~
24 ~~indirectly take or assume reinsurance under any policy or poli-~~
25 ~~cies or contracts or any agreements of indemnity covering prop-~~
26 ~~erty in this state from any insurer not authorized to transact~~
27 ~~property and/or marine insurance business herein under penalty of~~

~~1 revocation of authority to transact business in this state for~~
~~2 wilful or continued violation of this prohibition or provision.~~
~~3 Any violation of this subsection shall be punished by a fine of~~
~~4 not exceeding \$500.00, as a misdemeanor.~~

~~5 (3) An insurer authorized to transact multiple lines of~~
~~6 insurance may, except with respect to policies of life and endow-~~
~~7 ment insurance and contracts for the payment of annuities and~~
~~8 pure endowments, reinsure risks of every description.~~

9 Sec. 640. ~~No stock or mutual fire~~ AN insurer transacting
10 business in this state ~~—~~ shall NOT expose itself to any loss on
11 any 1 ~~fire or inland navigation~~ risk or hazard ~~—~~ to IN an
12 amount exceeding 10% of its paid-up capital and surplus. ~~—~~ nor
13 ~~shall any fire insurance company organized under the laws, or by~~
14 ~~authority of any foreign government, expose itself to any loss on~~
15 ~~any 1 fire or inland navigation risk, or hazard, to an amount~~
16 ~~exceeding 10% of its deposited capital and surplus in the United~~
17 ~~States. Provided, however, That~~ HOWEVER, no portion of ~~any~~
18 ~~such~~ A risk or hazard ~~which shall have~~ THAT HAS been reinsured
19 in ~~a corporation~~ AN INSURER licensed to do ~~fire~~ insurance
20 business in this state ~~—~~ shall be included in determining the
21 limitation of risk prescribed in this section.

22 Sec. 901. (1) Each insurer authorized to transact the busi-
23 ness of insurance in this state, and each person approved for
24 placement of business by a surplus lines agent pursuant to
25 chapter 19, may loan or invest its funds in any investment, and
26 may buy, sell, hold title to, possess, occupy, pledge, convey,
27 manage, protect, insure, and deal with respect to its

1 investments, property, and money to the same extent as any other
2 person or corporation under the laws of this state or of the
3 United States if the insurer has assets in cash, computers, or as
4 defined in this chapter in a total amount at least equal to the
5 sum of its liabilities including its reserves as required by this
6 ~~code~~ ACT, ~~plus an amount for contingencies as defined in~~
7 ~~subsection (5),~~ plus an amount equal to the minimum capital or
8 minimum surplus required to be maintained by sections 408
9 and 410. However, the value of all computers shall not exceed 2%
10 of the assets required by this subsection and the value of each
11 computer shall not exceed the original cost of the computer amor-
12 tized over a period not to exceed ~~10~~ 5 years. For purposes of
13 this section, "computer" means an electronic data processing
14 system, composed of 1 or more components, ~~which~~ THAT utilizes
15 storage and processing mechanization ~~—~~ and ~~which~~ has a direct
16 automatic means of input and output, including, but not limited
17 to, central processing units, data input/output channels, main
18 storage or memory, and peripheral devices for systems control,
19 data input, output, or temporary or permanent storage of informa-
20 tion, and associated reusable media required by these devices and
21 operating systems software. Title insurers may include their net
22 investment in their title plant. Assets ~~defined by~~ IN sections
23 946 and 947 THAT ARE ENCUMBERED WITH PRIOR LIENS SHALL NOT BE
24 USED TO SATISFY THIS REQUIREMENT. UNENCUMBERED ASSETS DESCRIBED
25 IN sections 946 and 947 shall not be used to satisfy more than
26 20% of this requirement. The sum of the liabilities and reserves
27 may be reduced by 1 or more of the following:

1 (a) A reinsurance balance recoverable or other credit due
2 from a reinsurer that complies with ~~rule 402 of the general~~
3 ~~rules of the insurance bureau, being R 500.402 of the Michigan~~
4 ~~administrative code, or other applicable rule~~ APPLICABLE RULES
5 OR ORDERS promulgated OR ISSUED by the commissioner, to the
6 extent that the balance recoverable or other credit due may be
7 used to offset a liability as authorized in an insurer's annual
8 statement concerning its affairs filed pursuant to section 438.

9 (b) Policy loans secured by policies included in the liabil-
10 ities and reserves but not in excess of the cash surrender value
11 of the policies.

12 (c) Premium notes secured by letters of credit, security
13 trust funds, or unearned premium reserves.

14 (d) The net amount of life insurance premiums and annuity
15 considerations deferred and ~~uncollected~~ NOT YET DUE. Reduction
16 under this subdivision shall not be allowed for credit life and
17 credit accident and health premiums deferred and uncollected,
18 whether individual or group, except as allowed pursuant to
19 subdivision (e).

20 (e) ~~Agents' balances or uncollected premiums owed directly~~
21 ~~to the insurer or owed indirectly to the insurer through an~~
22 ~~affiliated or controlled person, including credit insurance pre-~~
23 ~~miums, whether individual or group, other than amounts by which~~
24 ~~liabilities may be reduced in accordance with subdivision (d),~~
25 ~~from an agent, agency, policyholder, or other person, subject to~~
26 ~~the following conditions:~~ AMOUNTS RECEIVABLE FROM AN AGENT OR
27 AGENCY THAT DOES NOT HAVE CONTROL OF MORE THAN 10% OF ALL THE

1 INSURER'S AGENTS' BALANCES, AND THAT IS NOT AFFILIATED WITH THE
2 INSURER AS PRESCRIBED IN SUBSECTION (5), ON POLICIES WITH AN
3 EFFECTIVE DATE NOT MORE THAN 1 MONTH OLD TO THE EXTENT THAT THE
4 AMOUNTS ARE OFFSET BY UNEARNED PREMIUM RESERVES ON THE SAME
5 POLICIES.

6 ~~(i) This reduction shall only be allowed for agents' bal-~~
7 ~~ances or uncollected premiums not due from an agent, agency, pol-~~
8 ~~icyholder, or other person for more than 3 months.~~

9 ~~(ii) This reduction shall only be allowed as to the amount~~
10 ~~due from each agent, agency, policyholder, or other person to the~~
11 ~~extent that the balance or uncollected premium does not exceed~~
12 ~~40% of the sum of the insurer's liabilities and minimum capital~~
13 ~~or minimum surplus.~~

14 ~~(iii) The total amount by which the receivable from all~~
15 ~~agents, agencies, single policyholders, or other persons, net of~~
16 ~~ceded balances payable, exceeds 40% of the insurer's surplus as~~
17 ~~regards policyholders shall not be used to reduce liabilities~~
18 ~~under this subdivision. Premiums, agents' balances, and install-~~
19 ~~ments booked but deferred and not yet due are excluded from the~~
20 ~~40% limitation.~~

21 (F) AMOUNTS RECEIVABLE FROM A PERSON TO THE EXTENT THE
22 AMOUNTS OFFSET LIABILITIES OR AMOUNTS PAYABLE TO THAT PERSON.
23 RECEIVABLES AND PAYABLES WITH RESPECT TO REINSURANCE MAY BE
24 ALLOWED SO LONG AS THE REINSURANCE CONTRACT HAS A RIGHT OF OFFSET
25 PROVISION. A REDUCTION UNDER THIS SUBDIVISION SHALL NOT BE
26 ALLOWED FOR AGENTS' BALANCES OR UNCOLLECTED PREMIUMS AS DEFINED
27 BY SUBDIVISION (E).

1 (2) ~~(f)~~ Assets, liabilities, and reserves under ~~this~~
2 subsection (1) shall exclude assets, liabilities, and reserves
3 included in separate accounts established in accordance with
4 section 925. The value of income due and accrued in respect to
5 these assets may be included in the total amount. The assets
6 shall not be valued at more than the actual value as ascertained
7 in a manner approved by the commissioner, except those assets
8 ~~defined by~~ DESCRIBED IN sections 912, 914, 918, 934, 938, and
9 942 ~~which~~ THAT have a fixed term and rate, if amply secured and
10 not in default as to principal and interest AND IF INVESTMENT
11 QUALITY AS DEFINED BY THE COMMISSIONER may be valued as follows:
12 if purchased at par, the par value; if purchased above or below
13 par, on the basis of the purchase price adjusted so as to bring
14 the value to par at maturity and so as to yield in the meantime
15 the effective rate of interest at which the purchase was made.
16 The purchase price shall not be taken at a higher figure than the
17 actual market value at the time of purchase.

18 ~~(g) Amounts receivable from a person to the extent such~~
19 ~~amounts offset liabilities or amounts payable to that person.~~
20 ~~Receivables and payables with respect to reinsurance may be~~
21 ~~allowed so long as the reinsurance contract has a right of offset~~
22 ~~provision. A reduction under this subdivision shall not be~~
23 ~~allowed for agents' balances or uncollected premiums as defined~~
24 ~~by subdivision (c).~~

25 (3) ~~(h)~~ The commissioner may promulgate rules pursuant to
26 the administrative procedures act of 1969, Act No. 306 of the
27 Public Acts of 1969, being sections 24.201 to 24.328 of the

1 Michigan Compiled Laws, to permit other assets not specifically
2 ~~defined~~ DESCRIBED in this section to be used as qualified
3 assets for purposes of ~~this~~ subsection (1), as long as the
4 assets are financially equivalent to those assets ~~defined~~
5 DESCRIBED in sections 910 to 947.

6 (4) ~~(2)~~ The assets required by subsection (1) shall not
7 include more than 5% of ~~such~~ THE assets invested in, loaned to,
8 receivable from, secured by, leased or rented to, or deposited
9 with 1 person OR 1 GROUP OF AFFILIATED PERSONS or invested in 1
10 parcel of real estate. This restriction ~~shall~~ DOES not apply
11 to ~~funds deposited with or cash in banks, savings and loan~~
12 ~~institutions, or credit unions, or obligations of the United~~
13 ~~States or any state, or agencies or instrumentalities of the~~
14 ~~United States or any state, if~~ THE EXTENT THAT the principal and
15 interest are fully guaranteed by the United States or any state.
16 This restriction shall not apply to ~~cash or cash equivalent,~~
17 ~~including certificates of deposit in chartered banks. In the~~
18 ~~case of~~ ASSETS INVESTED IN, LOANED TO, RECEIVABLE FROM, SECURED
19 BY, LEASED OR RENTED TO, OR DEPOSITED WITH AN AFFILIATE OF THE
20 INSURER THAT IS AUTHORIZED TO TRANSACT INSURANCE. FOR an alien
21 insurer ~~which~~ THAT is an insurer authorized to transact the
22 business of life insurance, for purposes of this subsection the
23 term "assets" means the total assets of ~~such~~ THE insurer,
24 excluding assets included in separate accounts, as reported in
25 the total business annual statement filed by the insurer with its
26 domiciliary authority.

1 (5) ~~(3)~~ The assets referred to in subsection (1) ~~may~~
 2 SHALL NOT include assets invested in, loaned to, receivable from,
 3 secured by, leased or rented to, or deposited with a person that
 4 is, directly or indirectly, owned or controlled by the insurer or
 5 that, directly or indirectly, owns, controls, or is affiliated
 6 with the insurer AS CONTROL IS DEFINED IN SECTION 115, EXCEPT
 7 THAT AMOUNTS RECEIVABLE FROM, SECURED BY, LEASED OR RENTED TO, OR
 8 DEPOSITED WITH AN INSURER AFFILIATED WITH THE INSURER MAY BE
 9 INCLUDED IF ITS AFFILIATED INSURER COMPLIES WITH THIS SECTION.

10 ~~Two persons shall be considered to be affiliated if they are~~
 11 ~~both owned or controlled, directly or indirectly, by the same~~
 12 ~~person or by the same group of persons. Control shall be pre-~~
 13 ~~sumed to exist if a person, directly or indirectly, owns, con-~~
 14 ~~trols, holds with the power to vote, or holds proxies, represent-~~
 15 ~~ing 10% or more of the voting securities of any other person, or~~
 16 ~~in the case of a mutual insurer, owns 10% or more of the mutual~~
 17 ~~insurer's policyholders' surplus through surplus notes, guarantee~~
 18 ~~fund certificates, or other evidences of indebtedness issued by~~
 19 ~~the mutual insurer.~~

20 ~~(4) The value of controlled, owned, or affiliated entities,~~
 21 ~~for purposes of subsection (1), shall be calculated in accordance~~
 22 ~~with the following conditions and limitations:~~

23 ~~(a) If the owned, affiliated, or controlled entity is an~~
 24 ~~insurer, the entity will be permitted as an asset only if the~~
 25 ~~entity is licensed to transact the business of insurance in this~~
 26 ~~state or, if not licensed to transact the business of insurance~~
 27 ~~in this state, if it possesses the qualifications to become~~

~~1 licensed in this state. The value of an affiliated or controlled
2 insurance subsidiary shall be the value of assets in excess of
3 liabilities as determined pursuant to this section prorated to
4 reflect the extent of the insurer's ownership or equity partici-
5 pation with the entity.~~

~~6 (b) If the owned, affiliated, or controlled entity is not an
7 insurer, the value of the entity shall be assets in excess of all
8 liabilities to the extent that the assets comply with
9 sections 940 to 947. The value shall be prorated to reflect the
10 insurer's ownership or equity participation in the entity.~~

~~11 However, if an insurer can demonstrate to the satisfaction of the
12 commissioner that other assets of this owned, affiliated, or con-
13 trolled entity are at least as secure as assets which comply with
14 sections 940 to 947, the assets may be included in calculating
15 the value of the entity.~~

~~16 (5) The amount for contingencies required by subsection (1)
17 shall be calculated in accordance with the following:~~

~~18 (a) The amount for contingencies required by subsection (1)
19 for insurers, other than an insurer authorized to transact life
20 insurance and an insurer transacting only title insurance, shall
21 equal the net premiums written in excess of 3.5 times the
22 insurer's surplus as regards policyholders reported by the
23 insurer in its current statement of financial condition filed
24 with the commissioner.~~

~~25 (b) For purposes of this section, net premiums written shall
26 equal gross premiums less return premiums, including policy and
27 membership fees written during the year, plus all premiums~~

1 ~~assumed through reinsurance, less premiums ceded through~~
2 ~~reinsurance.~~

3 ~~(c) The 3.5 to 1 limitation, for those insurers required to~~
4 ~~file financial statements other than on an annual basis, shall be~~
5 ~~calculated by annualizing the net premiums as reported for~~
6 ~~interim statements. An even premium volume shall be assumed~~
7 ~~unless the insurer demonstrates to the satisfaction of the com-~~
8 ~~missioner that another method will more accurately reflect the~~
9 ~~insurer's projected annual premium volume. However, an alterna-~~
10 ~~tive projection method which utilizes a projection factor for~~
11 ~~surplus as regards policyholders shall not be acceptable.~~

12 ~~(d) The amount for contingencies referred to in this section~~
13 ~~for insurers authorized to transact life insurance and insurers~~
14 ~~transacting only title insurance shall equal zero.~~

15 ~~(e) Two or more insurers authorized to transact insurance in~~
16 ~~this state may compute the amount for contingencies referred to~~
17 ~~in this section on a consolidated basis and prorate the total~~
18 ~~amount for contingencies to each insurer in proportion to the~~
19 ~~premiums earned by each insurer, if either of the following con-~~
20 ~~ditions exist:~~

21 ~~(i) The insurers are affiliated through ownership, where~~
22 ~~each insurer is wholly owned by or wholly owns 1 or more of the~~
23 ~~other insurers in the group.~~

24 ~~(ii) The insurers pool substantially all their business with~~
25 ~~each other and the commissioner certifies that the computation on~~
26 ~~a consolidated basis will more accurately reflect the financial~~
27 ~~condition and affairs of the insurers.~~

1 (6) NOTWITHSTANDING THE LIMITATIONS IN SUBSECTIONS (4) AND
2 (5), THE ASSETS REQUIRED BY SUBSECTION (1) MAY INCLUDE THE VALUE
3 OF AMOUNTS INVESTED IN OR LOANED TO AN AFFILIATE AUTHORIZED TO
4 TRANSACT INSURANCE IN AN AMOUNT EQUAL TO THE ASSETS DESCRIBED IN
5 SUBSECTION (1), AS LIMITED BY SUBSECTIONS (4) AND (5), HELD BY
6 THE AFFILIATE AND IN EXCESS OF THE AMOUNT OF ASSETS REQUIRED FOR
7 THE AFFILIATE BY SUBSECTION (1), PRORATED TO REFLECT THE EXTENT
8 OF THE INSURER'S INVESTMENT IN OR LOANS TO THE AFFILIATE.

9 (7) ~~(f) An insurer may write premiums in excess of the~~
10 ~~ratio prescribed in subdivision (c) without incurring a contin-~~
11 ~~gency reserve penalty~~ COMPLY WITH THIS SECTION if the insurer
12 elects to PROVIDE ALTERNATIVE SECURITY TO POLICYHOLDERS AND
13 CLAIMANTS IN THIS STATE SATISFACTORY TO THE COMMISSIONER OR
14 ELECTS TO deposit funds or securities of the kind described in
15 section 912, OR OTHER SECURITIES ACCEPTABLE TO THE COMMISSIONER,
16 registered in the name of the state treasurer of Michigan, desig-
17 nated as exclusively held and deposited for the sole benefit of
18 ~~Michigan~~ STATE policyholders, claimants, and creditors pursuant
19 to section 8141a, in an amount, at market value, ~~equal to the~~
20 ~~greater of \$1,000,000.00 or~~ CONSIDERED ADEQUATE BY THE COMMIS-
21 SIONER TO SECURE STATE POLICYHOLDERS, BUT NOT LESS THAN THE
22 GREATER OF the aggregate sum of 100% of Michigan direct unpaid
23 losses and unpaid loss adjustment expense plus 100% of Michigan
24 direct unearned premiums OR THE DIRECT PREMIUMS WRITTEN IN THIS
25 STATE DURING THE MOST RECENT 12 MONTHS AVAILABLE IN FILED
26 STATEMENTS. Direct unpaid losses and unpaid loss adjustment
27 expenses shall include a provision for incurred but not reported

1 losses and associated loss adjustment expense. The deposit shall
2 be a special deposit and shall be subject to special deposit
3 claims for the benefit of ~~Michigan~~ STATE policyholders and
4 claimants pursuant to section 8141a. The deposit of funds
5 required by this ~~subdivision~~ SUBSECTION shall be increased by
6 adjustment each quarter. A decrease to the deposited fund may be
7 made annually only upon a satisfactory showing by the insurer to
8 the commissioner that a decrease in the deposit is justified.
9 The commissioner may require the special deposits set forth in
10 this subsection as a condition for any insurer to transact insur-
11 ance in this state if the commissioner finds that a special
12 deposit is necessary for the protection of ~~Michigan~~ STATE poli-
13 cyholders and claimants.

14 (8) ~~(6)~~ Compliance with subsection (1) is the obligation
15 of each insurer, fund, or fraternal benefit society authorized to
16 transact the business of insurance in this state. Failure to
17 comply shall limit the insurer, fund, or fraternal benefit soci-
18 ety under the remainder of this ~~code~~ ACT. If, at any time fol-
19 lowing compliance with the requirements of this section, an
20 insurer, fund, or fraternal benefit society ~~—~~ fails to maintain
21 compliance, the commissioner shall notify the insurer, fund, or
22 fraternal benefit society that it has failed to maintain compli-
23 ance with this section. Within 30 business days after notifica-
24 tion by the commissioner of noncompliance with the provisions of
25 this section, an insurer shall file a plan to restore compliance
26 with this section. Failure of the insurer to file a plan shall
27 create a presumption that the insurer does not meet the

1 requirements of this ~~code with respect to~~ ACT CONCERNING
2 surplus and assets. The commissioner, upon written request by
3 the insurer, may grant a period of time within which to restore
4 compliance. The period of time may be granted only if the com-
5 missioner is satisfied the insurer is safe, reliable, and enti-
6 tled to public confidence; is satisfied the insurer would suffer
7 a material financial loss from an immediate forced conversion of
8 its assets; and approves the plan filed by the insurer for
9 restoring compliance within the time granted. If the plan is not
10 approved by the commissioner, or if the plan is approved, and, at
11 the end of 1 year the insurer still does not comply with the
12 requirements of this section, the commissioner may grant addi-
13 tional time to comply, or the commissioner may suspend, revoke,
14 or limit the certificate of authority of the insurer pursuant to
15 section 436.

16 SEC. 904. (1) SUBJECT TO SUBSECTION (2), ALL BONDS OR OTHER
17 EVIDENCES OF DEBT HAVING A FIXED TERM AND RATE OF INTEREST HELD
18 BY AN INSURER, IF AMPLY SECURED AND NOT IN DEFAULT AS TO PRINCI-
19 PAL OR INTEREST, MAY BE VALUED AS FOLLOWS:

20 (A) IF PURCHASED AT PAR, AT THE PAR VALUE.

21 (B) IF PURCHASED ABOVE OR BELOW PAR, ON THE BASIS OF THE
22 PURCHASE PRICE ADJUSTED SO AS TO BRING THE VALUE TO PAR AT MATU-
23 RITY AND SO AS TO YIELD IN THE MEANTIME THE EFFECTIVE RATE OF
24 INTEREST AT WHICH THE PURCHASE WAS MADE, OR IN LIEU OF SUCH
25 METHOD, ACCORDING TO THE ACCEPTED METHOD OF VALUATION AS APPROVED
26 BY THE COMMISSIONER.

1 (2) THE PURCHASE PRICE OF A BOND OR EVIDENCE OF DEBT UNDER
2 SUBSECTION (1) SHALL NOT BE TAKEN AT A HIGHER FIGURE THAN THE
3 ACTUAL MARKET VALUE AT THE TIME OF PURCHASE, PLUS ACTUAL BROKER-
4 AGE, TRANSFER, POSTAGE, OR EXPRESS CHARGES PAID IN THE ACQUI-
5 SITION OF THE SECURITIES.

6 (3) THE COMMISSIONER SHALL HAVE FULL DISCRETION IN DETERMIN-
7 ING THE METHOD OF CALCULATING VALUES UNDER THIS SECTION, BUT A
8 METHOD OR VALUATION SHALL NOT BE INCONSISTENT WITH ANY APPLICABLE
9 VALUATION OR METHOD USED BY INSURERS IN GENERAL.

10 SEC. 905. (1) SECURITIES, OTHER THAN THOSE REFERRED TO IN
11 SECTION 904, HELD BY AN INSURER SHALL BE VALUED, IN THE
12 COMMISSIONER'S DISCRETION, AT THEIR MARKET VALUE, AT THEIR
13 APPRAISED VALUE, OR AT PRICES DETERMINED BY THE COMMISSIONER AS
14 REPRESENTING THEIR FAIR MARKET VALUE.

15 (2) PREFERRED OR GUARANTEED STOCKS OR SHARES WHILE PAYING
16 FULL DIVIDENDS MAY BE CARRIED AT A FIXED VALUE IN LIEU OF MARKET
17 VALUE, AT THE COMMISSIONER'S DISCRETION AND IN ACCORDANCE WITH A
18 METHOD OF VALUATION AS THE COMMISSIONER MAY APPROVE.

19 (3) STOCK OF A SUBSIDIARY CORPORATION OF AN INSURER SHALL
20 NOT BE VALUED AT AN AMOUNT IN EXCESS OF THE NET VALUE OF THE
21 STOCK AS BASED UPON ONLY THOSE ASSETS OF THE SUBSIDIARY THAT
22 WOULD BE ELIGIBLE UNDER SECTION 901 FOR THE DIRECT INVESTMENT OF
23 THE INSURER'S FUNDS.