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MONTANA STATE AUDITOR
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COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

Indemnification Agreement for Domestic Insurers Act SB 37

SB 37 Required to Protect Montana's Assets

Most of the assets of insurance companies are in the form of stocks, bonds, and other securities. Typically these securities are held by banks and brokerage firms that are acting as custodians on behalf of the insurance companies. This bill requires an agreement between the insurer and the custodian requiring the custodian to indemnify the insurer if there is a loss of the securities while in the custody of the custodian.

Current Montana law 'lacking'

Current Montana law requires that examinations of insurance companies be conducted in accordance with the guidelines and procedures set forth in the National Association of Insurance Commissioners Examiners' Handbook. During the 2004 accreditation examination of the Montana Insurance Financial Examinations Division by the National Association of Insurance Commissioners a note was made regarding Montana's lack of an indemnification statute. The Examiners' Handbook includes a procedure that requires examiners to confirm that an acceptable agreement between the insurer and its custodian is in place.

Good business practice for Montana

Having such agreements in place is a good business practice. It would prevent a significant loss by the insurer if there were a loss of the securities held by a custodian and if the custodian was not willing to provide indemnification.

SENATE [illegible]
Exhibit No. 1
Date 1-4-05
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