SENATE BILL REPORT

EHB 2443

AS REPORTED BY COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE, FEBRUARY 28, 1992

Brief Description: Restricting the investments of domestic insurers.

SPONSORS: Representatives R. Johnson, Dellwo, Paris, Inslee, Broback, Dorn, Kremen, Ebersole, Heavey, Spanel, Pruitt, Grant, Rayburn, Anderson, Winsley, Wang and Morris

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended.
Signed by Senators von Reichbauer, Chairman; Erwin, Vice Chairman; McCaslin, Moore, Pelz, Rasmussen, Sellar, Vognild, and West.

Staff: Benson Porter (786-7470)

Hearing Dates: February 25, 1992; February 28, 1992

BACKGROUND:

The Washington State Insurance Code governs the investments of insurance companies formed within this state. These regulations are intended to protect the solvency and liquidity of insurers. It has been reported that the examination of several failed life insurance companies has revealed heavy losses related to investments in junk bonds. These findings have led the National Association of Insurance Commissioners (NAIC) to recommend that each state adopt legislation restricting insurer investments in "low grade" corporate obligations.

SUMMARY:

Domestic insurer investment in medium and lower grade obligations as rated by the NAIC'S Securities Valuation office may not exceed 20 percent of the insurer's assets. Of this 20 percent limit, no more than 10 percent may be invested in lower grade obligations. Of this 10 percent limit for lower grade obligations, no more than 3 percent of an insurer's assets may be invested in those obligations rated five or six, and no more than 1 percent may be invested in obligations rated six (the worst rating).

In addition to the investment limits related to the grade of an obligation, no insurer may invest more than 1 percent of its assets in the medium and lower grade obligation of any one institution. Moreover, no more than one-half of 1 percent may be invested in the lower grade obligations of any one institution.

Insurer investments lawfully acquired before August 1, 1992 are grandfathered.

Appropriation: none

Revenue: none

Fiscal Note: none requested

SUMMARY OF PROPOSED SENATE AMENDMENT:

An insurer is not required to dispose of obligations that were lawfully purchased both before and after this act.

TESTIMONY FOR:

Washington insurers do not currently exceed the investment limitations.

TESTIMONY AGAINST: None

TESTIFIED: PRO: Mel Sorensen, NAII; John Woodall, Ins. Comm. Office; Ralph Hawkins, Northern Life Ins.; Dan Wolfe, Safeco; Dennis Martin, WSTLA; Edward Wanle