
ENGROSSED HOUSE BILL 2443

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

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1 AN ACT Relating to domestic insurer investments; amending RCW
2 48.13.030, 48.13.050, and 48.13.270; and adding a new section to
3 chapter 48.13 RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 48.13.030 and 1947 c 79 s .13.03 are each amended to
6 read as follows:

7 Except as set forth in section 4 of this act, an insurer shall not,
8 except with the consent of the commissioner, have at any time any
9 combination of investments in or loans upon the security of the
10 obligations, property, and securities of any one person, institution,
11 or municipal corporation aggregating an amount exceeding four percent
12 of the insurer's assets. This section shall not apply to investments
13 in, or loans upon the security of general obligations of the government
14 of the United States or of any state of the United States, nor to

1 investments in foreign securities pursuant to subsection (1) of RCW
2 48.13.180, nor include policy loans made pursuant to RCW 48.13.190.

3 **Sec. 2.** RCW 48.13.050 and 1947 c 79 s .13.05 are each amended to
4 read as follows:

5 Except as set forth in section 4 of this act, an insurer may invest
6 any of its funds in obligations other than those eligible for
7 investment under RCW 48.13.110 if they are issued, assumed, or
8 guaranteed by any solvent institution created or existing under the
9 laws of the United States or of any state, district or territory
10 thereof, and are qualified under any of the following:

11 (1) Obligations which are secured by adequate collateral security
12 and bear fixed interest if during each of any three, including the last
13 two, of the five fiscal years next preceding the date of acquisition by
14 the insurer, the net earnings of the issuing, assuming or guaranteeing
15 institution available for its fixed charges, as defined in RCW
16 48.13.060, have been not less than one and one-fourth times the total
17 of its fixed charges for such year. In determining the adequacy of
18 collateral security, not more than one-third of the total value of such
19 required collateral shall consist of stock other than stock meeting the
20 requirements of RCW 48.13.080.

21 (2) Fixed interest bearing obligations, other than those described
22 in subdivision (1) of this section, if the net earnings of the issuing,
23 assuming or guaranteeing institution available for its fixed charges
24 for a period of five fiscal years next preceding the date of
25 acquisition by the insurer have averaged per year not less than one and
26 one-half times its average annual fixed charges applicable to such
27 period and if during the last year of such period such net earnings
28 have been not less than one and one-half times its fixed charges for
29 such year.

1 (3) Adjustment, income or other contingent interest obligations if
2 the net earnings of the issuing, assuming or guaranteeing institution
3 available for its fixed charges for a period of five fiscal years next
4 preceding the date of acquisition by the insurer have averaged per year
5 not less than one and one-half times the sum of its average annual
6 fixed charges and its average annual maximum contingent interest
7 applicable to such period and if during each of the last two years of
8 such period such net earnings have been not less than one and one-half
9 times the sum of its fixed charges and maximum contingent interest for
10 such year.

11 **Sec. 3.** RCW 48.13.270 and 1982 c 218 s 5 are each amended to read
12 as follows:

13 An insurer shall not, except with the commissioner's approval in
14 advance, invest in or loan its funds upon the security of, or hold:

15 (1) Issued shares of its own capital stock, except for the purpose
16 of mutualization in accordance with RCW 48.08.080;

17 (2) Securities issued by any corporation, except as specifically
18 authorized by this chapter directly or by exception, if a majority of
19 the outstanding stock of such corporation, or a majority of its stock
20 having voting powers, is or will be after such acquisition, directly or
21 indirectly owned by the insurer, or by any combination of the insurer
22 and the insurer's directors, officers, parent corporation, and
23 subsidiaries;

24 (3) Securities issued by any corporation if a majority of its stock
25 having voting power is owned directly or indirectly by or for the
26 benefit of any one or more of the insurer's officers and directors;

27 (4) Any investment or loan ineligible under the provisions of RCW
28 48.13.030;

29 (5) Securities issued by any insolvent corporation;

1 (6) Obligations exceeding the limits imposed under the provisions
2 of section 4 of this act; and

3 (7) Any investment or security which is found by the commissioner
4 to be designed to evade any prohibition of this code.

5 NEW SECTION. **Sec. 4.** A new section is added to chapter 48.13 RCW
6 to read as follows:

7 (1) As used in this section:

8 (a) "Lower grade obligations" means obligations that are rated
9 four, five, or six by the securities valuation office.

10 (b) "Medium grade obligations" means obligations that are rated
11 three by the securities valuation office.

12 (c) "Securities valuation office" means the entity created by the
13 national association of insurance commissioners in part, to assign
14 rating categories for bond obligations acquired by insurers.

15 (2) An insurer's investment of any of its funds in medium and lower
16 grade obligations may not exceed twenty percent of its assets in the
17 aggregate subject to the following specific obligation investment
18 limits:

19 (a) No more than ten percent of an insurer's assets may be invested
20 in lower grade obligations;

21 (b) No more than three percent of an insurer's assets may be
22 invested in lower grade obligations rated five or six by the securities
23 valuation office;

24 (c) No more than one percent of an insurer's assets may be invested
25 in lower grade obligations rated six by the securities valuation
26 office;

27 (d) No more than one percent of an insurer's assets may be invested
28 in medium and lower grade obligations issued, guaranteed, or insured by
29 any one institution; and

1 (e) No more than one-half of one percent of an insurer's assets may
2 be invested in lower grade obligations issued, guaranteed, or insured
3 by any one institution.

4 (3) This section does not require an insurer to sell or otherwise
5 dispose of any obligation lawfully acquired before August 1, 1992. The
6 commissioner shall adopt rules identifying the circumstances under
7 which the commissioner may approve an investment in obligations
8 exceeding the limitations of this section as necessary to mitigate
9 financial loss by an insurer.