HOUSE BILL REPORT

HB 1839

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to investments of domestic insurers.

Brief Description: Investing by domestic insurers.

Sponsors: Representatives R. Johnson, Mielke, R. Meyers, Jones and Wang; by request of Insurance Commissioner.

Brief History:
Reported by House Committee on:
Financial Institutions & Insurance, February 25, 1993, DPS.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke, Ranking Minority Member; Dyer, Assistant Ranking Minority Member; Anderson; Dellwo; Dorn; Grant; R. Johnson; Kessler; Kremen; Lemmon; R. Meyers; Reams; Schmidt; and Tate.

Staff: John Conniff (786-7119).

Background: The Washington state Insurance Code governs the investments of insurance companies formed within this state (domestic insurers). Regulation of insurance company investment practices is intended to protect the solvency and liquidity of insurers. An examination of the recent failures of several large life insurance companies revealed heavy losses related to investments in junk bonds by these companies and led the National Association of Insurance Commissioners to recommend that each state adopt legislation restricting insurer investments in "low grade" corporate obligations - "junk bonds."

Summary of Substitute Bill: Domestic insurer investment in medium and lower grade obligations (e.g., bonds), as rated by the National Association of Insurance Commissioners' 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 in lower grade obligations, no more than 3 percent of an insurer's assets may be invested in the lower grade 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 and no more than one-half of 1 percent in the lower grade obligations of any one institution.

Insurer investments lawfully acquired before the effective date of the act are grandfathered.

The board of directors of any domestic insurer which invests more than 2 percent of its admitted assets in medium and lower grade obligations must adopt a written plan for making such investments to include standards for diversification of investments.

Insurers are permitted to invest in bonds rated one and two by the Securities Valuation Office and authority to invest in residential mortgage loans is amended to permit investments in loans with a higher loan to value ratio.

Substitute Bill Compared to Original Bill: Insurers are permitted to invest in bonds given a high rating by the Securities Valuation Office and authority to invest in residential mortgage loans is amended to permit investments in loans with a loan to value ratio of 80 percent. Other technical changes are made.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: Recent insurance company failures resulted, in part, from an over investment in medium to low grade bonds - junk bonds. Investment limits in low grade bonds will prevent future insolvencies. (Ralph Hawkins): If the Securities Valuation Office ratings are going to be used to limit insurer investment in obligations with low ratings, insurers should be permitted to rely on the Securities Valuation Office and to invest in obligations with high ratings. In addition, the investment section of the Insurance Code should be amended to recognize that many lenders now make residential mortgage loans with high loan to value ratios. The current limitation on insurer investment in loans with a loan to value ratio of no more than 75 percent should be increased to at least 80 percent to reflect current market practices.

Testimony Against: None.

Witnesses: Ralph Hawkins, Northern Life Insurance (pro); John Woodall, Office of the Insurance Commissioner (pro); and Basil Badley, American Insurance Association, American Council of Life Insurance and Health Insurance Association of America (some concerns).