SENATE BILL REPORT

SHB 1839

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE, MARCH 24, 1993

Brief Description: Investing by domestic insurers.

SPONSORS: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives R. Johnson, Mielke, R. Meyers, Jones and Wang; by request of Insurance Commissioner)

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: Do pass.
Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Barr, Cantu, Fraser, McAuliffe, Newhouse, Pelz, Prince, and Sutherland.

Staff: Benson Porter (786-7470)

Hearing Dates: March 22, 1993; March 24, 1993

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 model legislation restricting insurer investments in "low grade" corporate obligations - "junk bonds."

SUMMARY:

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. 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 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. The plan shall include standards for diversification of investments.

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

Appropriation: none

Revenue: none

Fiscal Note: none requested

TESTIMONY FOR:

The financial demise of some insurers across the nation has been attributed to their holding of low-grade investments (e.g., junk bonds). The investment limitations contained in the bill will help prevent similar reoccurrences.

The increase in the loan to value ratio will enable domestic insurers to invest in single family loans that satisfy the industry standard loan to value configuration.

TESTIMONY AGAINST: None

TESTIFIED: John Woodall, Insurance Commissioner’s Office (pro); Ralph Hawkins, Northern Life Insurance (pro)