

CERTIFICATION OF ENROLLMENT

**SUBSTITUTE HOUSE BILL 1839**

53rd Legislature  
1993 Regular Session

Passed by the House March 10, 1993  
Yeas 98 Nays 0

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**Speaker of the  
House of Representatives**

Passed by the Senate April 5, 1993  
Yeas 40 Nays 0

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**President of the Senate**

Approved

\_\_\_\_\_  
**Governor of the State of Washington**

CERTIFICATE

I, Alan Thompson, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SUBSTITUTE HOUSE BILL 1839** as passed by the House of Representatives and the Senate on the dates hereon set forth.

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**Chief Clerk**

FILED

**Secretary of State  
State of Washington**

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**SUBSTITUTE HOUSE BILL 1839**

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Passed Legislature - 1993 Regular Session

**State of Washington**

**53rd Legislature**

**1993 Regular Session**

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

Read first time 03/01/93.

1       AN ACT Relating to investments of domestic insurers; amending RCW  
2 48.13.030, 48.13.050, 48.13.060, 48.13.270, and 48.13.120; and adding  
3 new sections to 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 5 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  
15 investments in foreign securities pursuant to subsection (1) of RCW  
16 48.13.180, nor include policy loans made pursuant to RCW 48.13.190.

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

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

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

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

26        (3) Adjustment, income or other contingent interest obligations if  
27 the net earnings of the issuing, assuming or guaranteeing institution  
28 available for its fixed charges for a period of five fiscal years next  
29 preceding the date of acquisition by the insurer have averaged per year  
30 not less than one and one-half times the sum of its average annual  
31 fixed charges and its average annual maximum contingent interest  
32 applicable to such period and if during each of the last two years of  
33 such period such net earnings have been not less than one and one-half  
34 times the sum of its fixed charges and maximum contingent interest for  
35 such year.

36        **Sec. 3.** RCW 48.13.060 and 1947 c 79 s .13.06 are each amended to  
37 read as follows:

1 (1) Certain terms used are defined for the purposes of this chapter  
2 as follows:

3 (a) "Obligation" includes bonds, debentures, notes or other  
4 evidences of indebtedness.

5 (b) (~~("Institution" includes corporations, joint stock~~  
6 ~~associations, and business trusts.~~

7 ~~(c))~~ "Net earnings available for fixed charges" means net income  
8 after deducting operating and maintenance expenses, taxes other than  
9 federal and state income taxes, depreciation and depletion, but  
10 excluding extraordinary nonrecurring items of income or expense  
11 appearing in the regular financial statements of such institution.

12 (~~(d))~~ (c) "Fixed charges" includes interest on funded and  
13 unfunded debt, amortization of debt discount, and rentals for leased  
14 properties.

15 (d) "Admitted assets" means the amount as of the last day of the  
16 most recently concluded annual statement year, computed in the same  
17 manner as "assets" in RCW 48.12.010.

18 (e) "Aggregate amount" of medium grade and lower grade obligations  
19 means the aggregate statutory statement value of those obligations  
20 thereof.

21 (f) "Institution" means a corporation, a joint stock company, an  
22 association, a trust, a business partnership, a business joint venture,  
23 or similar entity.

24 (2) If net earnings are determined in reliance upon consolidated  
25 earnings statements of parent and subsidiary institutions, such net  
26 earnings shall be determined after provision for income taxes of  
27 subsidiaries and after proper allowance for minority stock interest, if  
28 any; and the required coverage of fixed charges shall be computed on a  
29 basis including fixed charges and preferred dividends of subsidiaries  
30 other than those payable by such subsidiaries to the parent corporation  
31 or to any other of such subsidiaries, except that if the minority  
32 common stock interest in the subsidiary corporation is substantial, the  
33 fixed charges and preferred dividends may be apportioned in accordance  
34 with regulations prescribed by the commissioner.

35 **Sec. 4.** RCW 48.13.270 and 1982 c 218 s 5 are each amended to read  
36 as follows:

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

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

3 (2) Securities issued by any corporation, except as specifically  
4 authorized by this chapter directly or by exception, if a majority of  
5 the outstanding stock of such corporation, or a majority of its stock  
6 having voting powers, is or will be after such acquisition, directly or  
7 indirectly owned by the insurer, or by any combination of the insurer  
8 and the insurer's directors, officers, parent corporation, and  
9 subsidiaries;

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

13 (4) Any investment or loan ineligible under the provisions of RCW  
14 48.13.030;

15 (5) Securities issued by any insolvent corporation;

16 (6) Obligations contrary to the provisions of section 5 of this  
17 act; or

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

20 NEW SECTION. Sec. 5. A new section is added to chapter 48.13 RCW  
21 to read as follows:

22 (1) As used in this section:

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

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

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

30 (2) No insurer may acquire directly or indirectly, any medium grade  
31 or lower grade obligation if, after giving effect to the acquisition,  
32 the aggregate amount of all medium grade and lower grade obligations  
33 then held by the insurer would exceed twenty percent of its admitted  
34 assets provided that:

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

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

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

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

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

13 (3) This section does not require an insurer to sell or otherwise  
14 dispose of any obligation lawfully acquired before the effective date  
15 of this act, or in accordance with this chapter. The commissioner  
16 shall adopt rules identifying the circumstances under which the  
17 commissioner may approve an investment in obligations exceeding the  
18 limitations of this section as necessary to mitigate financial loss by  
19 an insurer.

20 (4) The board of directors of any domestic insurance company which  
21 acquires or invests, directly or indirectly, more than two percent of  
22 its admitted assets in medium grade and lower grade obligations of any  
23 institution, shall adopt a written plan for making those investments.  
24 The plan, in addition to guidelines with respect to the quality of the  
25 issues invested in, shall contain diversification standards including,  
26 but not limited to, standards for issuer, industry, duration,  
27 liquidity, and geographic location.

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

30 Notwithstanding the provisions of RCW 48.13.050, an insurer may  
31 invest its funds in obligations rated by the securities valuation  
32 office. Investments in obligations that are rated one or two by the  
33 securities valuation office shall be subject to the limitations  
34 contained in RCW 48.13.030.

35 **Sec. 7.** RCW 48.13.120 and 1969 ex.s. c 241 s 5 are each amended to  
36 read as follows:

1 (1) An investment made pursuant to the provisions of RCW 48.13.110  
2 shall not exceed seventy-five percent of the fair value of the  
3 particular property at the time of investment. However, if the loan is  
4 secured by a first mortgage or other first lien upon real property  
5 improved with a single-family residential building, the terms of such  
6 loan provide for monthly payments of principal and interest sufficient  
7 to effect full repayment of the loan within the remaining useful life  
8 of the building as estimated in the appraisal for the loan, or thirty  
9 years and two months, whichever is less, the principal so loaned or the  
10 entire note or bond issue so secured, plus the amount of the liens of  
11 any public bond, assessment, or tax assessed upon the property, may not  
12 exceed eighty percent of the market value of the real property, or of  
13 the real property together with the improvements which are taken as  
14 security. This restriction shall not apply to purchase money mortgages  
15 or like securities received by an insurer upon the sale or exchange of  
16 real property acquired pursuant to RCW 48.13.160.

17 (2) The extent to which a mortgage loan made under ((subdivision  
18 ~~(3) or (4) of~~) RCW 48.13.110(3) or (4) is guaranteed or insured by the  
19 Federal Housing Administration or guaranteed by the Administrator of  
20 Veterans' Affairs may be deducted before application of the limitations  
21 contained in subsection (1) of this section.

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