FINAL BILL REPORT
SHB 2097

C 317 L 97
Synopsis as Enacted

Brief Description: Regulating the investment practices of insurance companies.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representative L. Thomas).

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Institutions, Insurance & Housing

Background: The Office of Insurance Commissioner oversees the corporate and financial activities of insurance companies. All companies authorized to conduct insurance operations in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations.

Allowable investments of insurance companies are regulated by statute and rule. For instance, insurance companies may not have investments or loans with one person, corporation, institution, or municipal corporation exceeding 4 percent of total assets, except for general obligations of states, the federal government, or certain foreign obligations. Insurance companies may invest up to 10 percent of their assets in corporate stocks. Generally, an insurance company may not have more than 10 percent of its assets in ownership of its home office and other offices or buildings without the approval of the insurance commissioner. The type of investments allowed for capital and reserves is limited, and certain investments are prohibited.

A derivative is a financial agreement that has its value based on, or derived from, some underlying index or financial asset, such as interest rates, currencies, stock prices, or commodities. Typically, derivatives are used to hedge risks, but derivatives, especially exotic or unusual derivatives, can be used for speculation. The value of the underlying asset is called the notional amount. The major types of derivatives, which can be combined to create more complicated derivatives, include forwards and futures, options, and swaps.

Summary: An insurance company may engage in derivative transactions if specific conditions are complied with; derivatives may not be used for speculative purposes. The primary purpose of derivatives used by insurance companies must be to hedge risk. The insurer must demonstrate to the insurance commissioner the intended hedging characteristics of the derivative and its ongoing effectiveness in that regard. An insurer may use derivatives for income generation in some limited circumstances.

The insurance commissioner is authorized to adopt rules regarding the use of derivatives by insurance companies.

Votes on Final Passage:

House	81	15	
Senate	45	0	(Senate amended)
House			(House refused to concur)

<u>Conference Committee</u>

Senate	44	0
House	79	9

Effective: July 27, 1997