

# **HOUSE BILL ANALYSIS**

## **ON**

### **HB 2097**

***Brief Description:*** *Relating to the investment practices of insurance companies.*

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***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 cannot 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 can invest up to 10 percent of their assets in corporate stocks. Generally, an insurance company cannot 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 whose value is 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:*** *A domestic insurance company can enter into financial transactions solely for the purpose of reducing the risk associated with the assets and liabilities that the company has or will acquire. Allowed transactions, commonly referred to as derivatives, include futures, options, swaps, caps, collars, and floors. These financial transactions cannot be for speculative purposes. An insurer must be able to demonstrate to the Insurance Commissioner the intended hedging characteristics of the transaction and its ongoing effectiveness.*

***Fiscal Note:*** *Not requested.*

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

***Rulemaking:*** *No specific authority.*