

# HOUSE BILL REPORT

## HB 2848

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### As Passed Legislature

**Title:** An act relating to the safeguarding of securities of domestic insurance companies, health care service contractors, health maintenance organizations, and health carriers.

**Brief Description:** Safeguarding securities.

**Sponsors:** Representatives Hatfield, Benson and Keiser; by request of Insurance Commissioner.

### Brief History:

#### Committee Activity:

Financial Institutions & Insurance: 2/1/00, 2/3/00 [DP].

#### Floor Activity:

Passed House: 2/14/00, 94-1.

Passed Senate: 2/28/00, 44-0.

Passed Legislature.

### Brief Summary of Bill

- Provisions are added to protect an insurance company's securities investments.
- Securities brokers/dealers cannot hold insurance company securities more than 72 hours after a purchase, and the insurance company must receive confirmation of the purchase and transfer to the custodian.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 12 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; Barlean; Cairnes; DeBolt; Keiser; Quall; Santos; Sullivan and Talcott.

**Staff:** Charlie Gavigan (786-7340).

### Background:

The Office of the Insurance Commissioner oversees the financial activities of insurance companies. All companies authorized to conduct business 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 by rule.

When an insurance company purchases securities as investments, typically through a broker/dealer, the securities can be held by the insurance company itself, by the broker/ dealer, by a bank or trust company, or by a clearing corporation.

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**Summary of Bill:**

When a domestic insurance company buys securities, the securities can be held by the insurance company itself, a bank or trust company, or a clearing corporation. The securities cannot be held by the broker/dealer for more than 72 hours after the purchase. The broker/dealer must provide the insurance company confirmation of the purchase within 24 hours, and the holder of the securities on behalf of the insurance company must send confirmation to the insurance company that it has received the securities.

If the Insurance Commissioner has reasonable cause to believe that the domestic insurance company's solvency is threatened or determines that irreparable loss will occur, the Insurance Commission can order the insurance company to transfer the securities to a custodian approved by the commissioner. This action by the commissioner is not subject to an automatic stay.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** This bill closes a loophole that allowed an unscrupulous securities broker/dealer to steal over \$225 million from eight southeastern insurance companies, causing them all to become insolvent. Washington insurers lost \$1.25 million. The bill protects Washington insurance companies and policyholders.

**Testimony Against:** None.

**Testified:** John Woodall, Office of Insurance Commissioner; and Deanne Kopkas, National Association of Independent Insurers

(With Concerns) Ken Bertrand, Group Health.