HOUSE BILL REPORT
SSB 5616

As Passed House:
April 14, 2003

Title: An act relating to insurer foreign investments.

Brief Description: Concerning insurer foreign investments.

Sponsors: By Senate Committee on Financial Services, Insurance & Housing (originally sponsored by Senators Benton, Prentice, Reardon, Zarelli, Winsley, Keiser and Finkbeiner).

Brief History:
Committee Activity:
Financial Institutions & Insurance: 3/28/03, 4/2/03 [DP].
Floor Activity:
Passed House: 4/14/03, 93-0.

Brief Summary of Substitute Bill

- Authorizes an insurer to invest an aggregate amount of not more than 10 percent of its assets in the obligations of foreign governmental entities or the securities of foreign corporations.
- Limits an insurer to investing not more than 5 percent of its assets in any one foreign country.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Hunter, Roach and Santos.

Staff: Thamas Osborn (786-7129).

Background:

The insurance industry has been explicitly recognized under the law as one that is "affected by the public interest." Consequently, insurers are subject to stringent regulatory oversight by the Insurance Commissioner. Key to the regulatory scheme imposed upon the insurance industry are the statutory provisions regulating the investments made by insurance companies. The purpose of such regulation is to ensure that insurance companies invest prudently and, thus, remain solvent.

Under current law, insurance companies that are authorized to engage in the insurance business in foreign countries may invest in securities of such countries in accordance with specified conditions. These investments must meet the same safety and soundness requirements applicable to investments made in the United States.

Investments in the obligations of Canadian governmental entities or the securities of Canadian corporations are subject to specific regulations that are more liberal than those applicable to investments in other nations. Canadian investments are limited to 5 percent of an insurer’s assets in addition to an aggregate amount not to exceed its deposit and reserve obligations incurred in Canada.

Summary of Bill:

The regulatory distinctions between an insurer’s investments in Canada and those made in other nations are eliminated. Accordingly, a single set of regulations is applicable to all foreign investments by insurers.

An insurer is authorized to invest an aggregate amount of not more than 10 percent of its total assets in foreign countries in addition to an aggregate amount not to exceed its deposit and reserve obligations in those countries. However, this investment authorization is subject to three conditions: (1) an investment made in any one foreign country may not exceed 5 percent of an insurer’s total assets; (2) the foreign jurisdiction must meet specified debt rating criteria; and (3) an investment in a foreign corporation is allowed only if the corporation has not been in default during the five years preceding the prospective investment.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The bill creates necessary changes with respect to the regulation of an insurer’s investments in foreign countries. Insurers will benefit by having more latitude and flexibility in making foreign investments. Increasing the amount that an insurer may invest abroad is consistent with the national trend, though the amount of the increase is substantially less than that allowed under the model act.

Testimony Against: None.

Testified: Gary Strannigan, SAFECO; and Mike Kapphahn, Farmer's Insurance.