

2 EHB 2443 - S COMM AMD

3 By Committee on Financial Institutions & Insurance

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5 Strike everything after the enacting clause and insert the
6 following:

7 "Sec. 1. RCW 48.13.030 and 1947 c 79 s .13.03 are each amended to
8 read as follows:

9 Except as set forth in section 4 of this act, an insurer shall not,
10 except with the consent of the commissioner, have at any time any
11 combination of investments in or loans upon the security of the
12 obligations, property, and securities of any one person, institution,
13 or municipal corporation aggregating an amount exceeding four percent
14 of the insurer's assets. This section shall not apply to investments
15 in, or loans upon the security of general obligations of the government
16 of the United States or of any state of the United States, nor to
17 investments in foreign securities pursuant to subsection (1) of RCW
18 48.13.180, nor include policy loans made pursuant to RCW 48.13.190."

19 "Sec. 2. RCW 48.13.050 and 1947 c 79 s .13.05 are each amended to
20 read as follows:

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

1 (1) Obligations which are secured by adequate collateral security
2 and bear fixed interest if during each of any three, including the last
3 two, of the five fiscal years next preceding the date of acquisition by
4 the insurer, the net earnings of the issuing, assuming or guaranteeing
5 institution available for its fixed charges, as defined in RCW
6 48.13.060, have been not less than one and one-fourth times the total
7 of its fixed charges for such year. In determining the adequacy of
8 collateral security, not more than one-third of the total value of such
9 required collateral shall consist of stock other than stock meeting the
10 requirements of RCW 48.13.080.

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

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

1 **"Sec. 3.** RCW 48.13.270 and 1982 c 218 s 5 are each amended to read
2 as follows:

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

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

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

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

17 (4) Any investment or loan ineligible under the provisions of RCW
18 48.13.030;

19 (5) Securities issued by any insolvent corporation;

20 (6) Obligations exceeding the limits imposed under the provisions
21 of section 4 of this act; and

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

24 "NEW SECTION. **Sec. 4.** A new section is added to chapter 48.13 RCW
25 to read as follows:

26 (1) As used in this section:

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

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

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

6 (2) No insurer shall acquire any medium grade or lower grade
7 obligation if, after giving effect to any such acquisition, the
8 aggregate amount of all medium grade and lower grade obligations then
9 held by the insurer would exceed twenty percent of its assets provided
10 that:

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

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

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

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

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

25 (3) This section does not require an insurer to sell or otherwise
26 dispose of any obligation lawfully acquired before August 1, 1992, or
27 in accordance with this chapter. The commissioner shall adopt rules
28 identifying the circumstances under which the commissioner may approve
29 an investment in obligations exceeding the limitations of this section
30 as necessary to mitigate financial loss by an insurer."

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4 On page 1, line 1 of the title, after "investments;" strike the
5 remainder of the title and insert "amending RCW 48.13.030, 48.13.050,
6 and 48.13.270; and adding a new section to chapter 48.13 RCW."