

HOUSE BILL REPORT

EHB 2443

*As Passed House
February 12, 1992*

Title: An act relating to domestic insurer investments.

Brief Description: Restricting the investments of domestic insurers.

Sponsor(s): Representatives R. Johnson, Dellwo, Paris, Inslee, Broback, Dorn, Kremen, Ebersole, Heavey, Spanel, Pruitt, Grant, Rayburn, Anderson, Winsley, Wang and Morris.

Brief History:

Reported by House Committee on:

Financial Institutions & Insurance, January 24, 1992, DP;
Passed House, February 12, 1992, 93-0.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *Do pass.* Signed by 11 members: Representatives Zellinsky, Vice Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; and Winsley.

Staff: John Conniff (786-7119).

Background: Washington state insurance code governs the investments of insurance companies formed within this state (domestic insurers). Regulation of insurance company investment practices is intended to protect the solvency and liquidity of insurers. An examination of the recent failures of several large life insurance companies revealed heavy losses related to investments in junk bonds by these companies and led the National Association of Insurance Commissioners to recommend that each state adopt legislation restricting insurer investments in "low grade" corporate obligations - junk bonds.

Summary of Bill:

Domestic insurer investment in medium and lower grade obligations (e.g., bonds) as rated by the National Association of Insurance Commissioners' Securities Valuation office may not exceed 20 percent of the insurer's assets.

Of this 20 percent limit, no more than 10 percent may be invested in lower grade obligations. Of this 10 percent limit in lower grade obligations, no more than 3 percent of an insurer's assets may be invested in the lower grade obligations rated five or six and no more than 1 percent may be invested in obligations rated six (the worst rating).

In addition to the investment limits related to the grade of an obligation, no insurer may invest more than 1 percent of its assets in the medium and lower grade obligation of any one institution and no more than one-half of 1 percent in the lower grade obligations of any one institution.

Insurer investments lawfully acquired before August 1, 1992 are grandfathered.

Fiscal Note: Not requested.

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

Testimony For: Washington insurance companies do not exceed the proposed junk bond investment limitations and, therefore, have no objection to their adoption.

Testimony Against: None.

Witnesses: Basil Badley, AIA, ACCI, NAI; Mel Sorensen, NAI; and Jean Leonard, Washington Insurers.