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HOUSE BILL 2443

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By Representatives R. Johnson, Dellwo, Paris, Inslee, Broback, Dorn, Kremen, Ebersole, Heavey, Spanel, Pruitt, Grant, Rayburn, Anderson, Winsley, Wang and Morris

Read first time 01/16/92. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to domestic insurer investments; amending RCW  
2 48.13.050 and 48.13.270; and adding a new section to chapter 48.13 RCW.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 **Sec. 1.** RCW 48.13.050 and 1947 c 79 s .13.05 are each amended to  
5 read as follows:

6 Except as set forth in section 3 of this act, an insurer may invest  
7 any of its funds in obligations other than those eligible for  
8 investment under RCW 48.13.110 if they are issued, assumed, or  
9 guaranteed by any solvent institution created or existing under the  
10 laws of the United States or of any state, district or territory  
11 thereof, and are qualified under any of the following:

12 (1) Obligations which are secured by adequate collateral security  
13 and bear fixed interest if during each of any three, including the last  
14 two, of the five fiscal years next preceding the date of acquisition by

1 the insurer, the net earnings of the issuing, assuming or guaranteeing  
2 institution available for its fixed charges, as defined in RCW  
3 48.13.060, have been not less than one and one-fourth times the total  
4 of its fixed charges for such year. In determining the adequacy of  
5 collateral security, not more than one-third of the total value of such  
6 required collateral shall consist of stock other than stock meeting the  
7 requirements of RCW 48.13.080.

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

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

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

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

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

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

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

15 (4) Any investment or loan ineligible under the provisions of RCW  
16 48.13.030;

17 (5) Securities issued by any insolvent corporation;

18 (6) Obligations exceeding the limits imposed under the provisions  
19 of section 3 of this act; and

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

22 NEW SECTION. Sec. 3. A new section is added to chapter 48.13 RCW  
23 to read as follows:

24 (1) As used in this section:

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

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

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

4 (2) An insurer's investment of any of its funds in medium and lower  
5 grade obligations may not exceed twenty percent of its assets in the  
6 aggregate subject to the following specific obligation investment  
7 limits:

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

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

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

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

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

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