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**SENATE BILL 6022**

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**State of Washington 64th Legislature 2015 Regular Session**

**By** Senator Chase

AN ACT Relating to the investments of insurers; amending RCW 48.13.005, 48.13.009, 48.13.031, 48.13.061, 48.13.071, and 48.13.101; and repealing RCW 48.13.021.

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

**Sec.**  RCW 48.13.005 and 2011 c 188 s 1 are each amended to read as follows:

(1) The ((~~purpose of chapter 188, Laws of 2011 is to protect and to further the interests of insureds, creditors, and the general public by providing, with minimum interference with management initiative and judgment,~~)) Washington state insurance code governs the investments of insurers. The purpose of the regulation of insurers' investments is to protect and to further the interests of consumers, taxpayers, health care providers, insureds, creditors, and the general public by promoting insurer solvency, liquidity, and financial strength. This will be accomplished through the application of investment standards that facilitate a reasonable balance of the following objectives: (a) To preserve principal; (b) to assure safe and reasonable diversification of investments as to type, issuer, and credit quality; (c) to avoid a concentration of risky assets; and (d) to promote an adequate rate of return for insurers so that its obligations are met and financial strength is sufficient to cover reasonably foreseeable contingencies with prudent standards for the development and administration of insurer investment programs.

(2) This chapter ((~~188, Laws of 2011~~)) and the rules adopted to interpret and implement it apply to domestic insurers, United States branches of alien insurers entered through this state, alien insurers admitted and using this state as their port of entry, domestic fraternal benefit societies formed pursuant to chapter 48.36A RCW, domestic health care service contractors formed pursuant to chapter 48.44 RCW, domestic health maintenance organizations formed pursuant to chapter 48.46 RCW, and domestic self-funded multiple employer welfare arrangements formed pursuant to chapter 48.125 RCW.

(3) Separate accounts established in accordance with RCW 48.18A.020 shall be evaluated separately pursuant to that section.

**Sec.**  RCW 48.13.009 and 2011 c 188 s 2 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Derivative instrument" means an item appropriately reported in schedule DB (derivative instruments) or schedule DC (insurance futures and insurance futures options) of an insurer's statutory financial statement or successor schedules, pursuant to applicable annual statement instructions or statutory accounting guidelines.

(2) "Derivative transaction" means a transaction involving the use of one or more derivative instruments.

(3) "Income generation" means a derivative transaction involving the writing of covered options, caps, or floors that is intended to generate income or enhance return.

(4) "Leverage" means the relationship of insurance and investment risks to capital and surplus as defined by the national association of insurance commissioners insurance regulatory information system and its other financial analysis solvency tools and reports.

(5) "Lower grade investment" means a rated credit instrument or debt-like preferred stock rated 4, 5, or 6 by the securities valuation office of the national association of insurance commissioners or any successor office.

(6) "Medium grade investment" means a rated credit instrument or debt-like preferred stock rated 3 by the securities valuation office of the national association of insurance commissioners or any successor office.

(7) ((~~"Minimum asset requirement" is the sum of an insurer's liabilities and its minimum financial security benchmark.~~

~~(8) "Minimum financial security benchmark" is the amount an insurer is required to have under RCW 48.13.021.~~

~~(9)~~)) "Mutual fund" means a mutual fund or exchange traded fund registered with the securities and exchange commission of the United States under the investment company act of 1940.

((~~(10)~~)) (8) "Rated by the securities valuation office" means any security that is directly rated by the securities valuation office or that is given an equivalent filing exempt rating as prescribed in the purposes and procedures manual of the national association of insurance commissioners securities valuation office.

((~~(11)~~)) (9) "Replication" means a derivative transaction involving one or more derivative instruments being used to modify the cash flow characteristics of one or more investments held by an insurer in a manner so that the aggregate cash flows of the derivative instruments and investments reproduce the cash flows of another investment having a higher risk-based capital charge than the risk-based capital charge of the original instruments or investments.

((~~(12)~~)) (10) "Securities valuation office listed mutual fund" means a money market mutual fund or short-term bond fund that is registered with the United States securities and exchange commission under the investment company act of 1940, and that has been determined by the national association of insurance commissioners securities valuation office to be eligible for special reserve and reporting treatment, other than as common stock.

((~~(13)~~)) (11) "Surplus" means the excess of admitted assets over all liabilities.

((~~(14)~~)) (12) "United States government securities" means any security defined in the purposes and procedures manual of the national association of insurance commissioners securities valuation office as a United States government security.

**Sec.**  RCW 48.13.031 and 2011 c 188 s 4 are each amended to read as follows:

(1) ((~~Subject to the provisions of this chapter,~~)) An insurer may loan or invest its funds, and may buy, sell, hold title to, possess, occupy, pledge, convey, manage, protect, insure, and deal with its investments, property, and other assets ((~~to the same extent as any other person or corporation under the laws of this state and of the United States~~)) only as prescribed by this chapter.

(2) With respect to all of the insurer's investments, the board of directors of an insurer shall exercise the judgment and care, under the circumstances then prevailing, that persons of reasonable prudence, discretion, and intelligence exercise in the management of a like enterprise, not in regard to speculating but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Investments shall be of sufficient value, liquidity, and diversity to assure the insurer's ability to meet its outstanding obligations based on reasonable assumptions as to new business production for current lines of business. As part of its exercise of judgment and care, the board of directors shall take into account the prudence evaluation criteria of RCW 48.13.041.

(3) The insurer shall establish and implement internal controls and procedures to assure compliance with investment policies and procedures to assure that:

(a) The insurer's investment staff and any consultants used are reputable and capable;

(b) A periodic evaluation and monitoring process occurs for assessing the effectiveness of investment policy and strategies;

(c) Management's performance is assessed in meeting the stated objectives within the investment policy; and

(d) Appropriate analyses are undertaken of the degree to which asset cash flows are adequate to meet liability cash flows under different economic environments. These analyses shall be conducted at least annually and make specific reference to economic conditions.

**Sec.**  RCW 48.13.061 and 2011 c 188 s 7 are each amended to read as follows:

The following classes of investments may be counted for the purposes specified in RCW 48.13.101, whether they are made directly or as a participant in a partnership, joint venture, or limited liability company. Investments in partnerships, joint ventures, and limited liability companies are authorized investments only pursuant to subsection (12) of this section:

(1) Cash in the direct possession of the insurer or on deposit with a financial institution regulated by any federal or state agency of the United States;

(2) Bonds, debt-like preferred stock, and other evidences of indebtedness of governmental units in the United States ((~~or Canada~~)), or the instrumentalities of the governmental units, or private business entities domiciled in the United States ((~~or Canada~~)), including asset-backed securities and securities valuation office listed mutual funds;

(3) Loans secured by first mortgages, first trust deeds, or other first security interests in real property located in the United States ((~~or Canada~~)) or secured by insurance against default issued by a government insurance corporation of the United States ((~~or Canada~~)) or by an insurer authorized to do business in this state;

(4) Common stock or equity-like preferred stock or equity interests in any United States ((~~or Canadian~~)) business entity, or shares of mutual funds registered with the securities and exchange commission of the United States under the investment company act of 1940, other than securities valuation office listed mutual funds, and, subsidiaries, as defined in RCW 48.31B.005 or 48.31C.010, engaged exclusively in the following businesses:

(a) Acting as an insurance producer, surplus line broker, or title insurance agent for its parent or for any of its parent's insurer subsidiaries or affiliates;

(b) Investing, reinvesting, or trading in securities or acting as a securities broker or dealer for its own account, that of its parent, any subsidiary of its parent, or any affiliate or subsidiary;

(c) Rendering management, sales, or other related services to any investment company subject to the federal investment company act of 1940, as amended;

(d) Rendering investment advice;

(e) Rendering services related to the functions involved in the operation of an insurance business including, but not limited to, actuarial, loss prevention, safety engineering, data processing, accounting, claims appraisal, and collection services;

(f) Acting as administrator of employee welfare benefit and pension plans for governments, government agencies, corporations, or other organizations or groups;

(g) Ownership and management of assets which the parent could itself own and manage: PROVIDED, that the aggregate investment by the insurer and its subsidiaries acquired pursuant to this subsection (4)(g) shall not exceed the limitations otherwise applicable to such investments by the parent;

(h) Acting as administrative agent for a government instrumentality which is performing an insurance function or is responsible for a health or welfare program;

(i) Financing of insurance premiums;

(j) Any other business activity reasonably ancillary to an insurance business;

(k) Owning one or more subsidiary;

(i) Insurers, health care service contractors, or health maintenance organizations to the extent permitted by this chapter;

(ii) Businesses specified in (a) through (k) of this subsection inclusive; or

(iii) Any combination of such insurers and businesses;

(5) Real property necessary for the convenient transaction of the insurer's business;

(6) Real property, together with the fixtures, furniture, furnishings, and equipment pertaining thereto in the United States ((~~or Canada~~)), which produces or after suitable improvement can reasonably be expected to produce income;

(7) Loans, securities, or other investments of the types described in subsections (1) through (6) of this section in national association of insurance commissioners securities valuation office 1 debt rated countries other than the United States ((~~and Canada~~));

(8) Bonds or other evidences of indebtedness of international development organizations of which the United States is a member;

(9) Loans upon the security of the insurer's own policies in amounts that are adequately secured by the policies and that in no case exceed the surrender values of the policies;

(10) Tangible personal property under contract of sale or lease under which contractual payments may reasonably be expected to return the principal of and provide earnings on the investment within its anticipated useful life;

(11) Other investments the commissioner authorizes by rule; and

(12) Investments not otherwise permitted by this section, and not specifically prohibited by statute, to the extent of not more than five percent of the first five hundred million dollars of the insurer's admitted assets plus ten percent of the insurer's admitted assets exceeding five hundred million dollars.

**Sec.**  RCW 48.13.071 and 2011 c 188 s 8 are each amended to read as follows:

(1) Class limitations. For the purposes of RCW 48.13.101, the following limitations on classes of investments apply:

(a) Investments authorized by RCW 48.13.061(2), and investments authorized by RCW 48.13.061(7) that are of the types described in RCW 48.13.061(2);

(i) The aggregate amount of medium and lower grade investments, twenty percent of its admitted assets;

(ii) The aggregate amount of lower grade investments, ten percent of its admitted assets;

(iii) The aggregate amount of investments rated 5 or 6 by the securities valuation office, five percent of its admitted assets;

(iv) The aggregate amount of investments rated 6 by the securities valuation office, one percent of its admitted assets; or

(v) The aggregate amount of medium and lower grade investments that receive as cash income less than the equivalent yield for treasury issues with a comparative average life, one percent of its admitted assets;

(b) Investments authorized by RCW 48.13.061(3), forty-five percent of admitted assets in the case of life insurers and twenty-five percent of admitted assets in the case of nonlife insurers;

(c) Investments authorized by RCW 48.13.061(4), other than subsidiaries of the types authorized under RCW 48.13.061(4) (a) through (k), twenty percent of admitted assets in the case of life insurers and twenty-five percent of admitted assets in the case of nonlife insurers;

(i) Individual investments authorized by RCW 48.13.061(4), except for subsidiaries, shall be limited to ten percent of the voting interest in any one entity;

(ii) Investments authorized in RCW 48.13.061(4) in one or more subsidiaries shall be limited to the lesser of ten percent of admitted assets or fifty percent of surplus;

(d) Investments authorized by RCW 48.13.061(5), ten percent of admitted assets;

(e) Investments authorized by RCW 48.13.061(6), twenty percent of admitted assets in the case of life insurers, and ten percent of admitted assets in the case of nonlife insurers;

(f) Investments authorized by RCW 48.13.061(7), ((~~twenty~~)) ten percent of admitted assets. However, investments made in any one foreign country pursuant to this subsection may not exceed five percent of admitted assets;

(g) Investments authorized by RCW 48.13.061(8), two percent of admitted assets; and

(h) Investments authorized by RCW 48.13.061(10), two percent of admitted assets.

(2) Individual limitations. For purposes of determining compliance with RCW 48.13.101, securities of a single issuer and its affiliates, other than United States government securities and subsidiaries authorized by RCW 48.13.061(4), shall not exceed three percent of admitted assets in the case of life insurers, and five percent in the case of nonlife insurers. Investments in the voting securities of a depository institution, or any company that controls a depository institution, shall not exceed five percent of the insurer's admitted assets.

(3) Investment subsidiaries. For purposes of determining compliance with the limitations of this section, the admitted portion of assets of subsidiaries authorized by RCW 48.13.061(4) shall be deemed to be owned directly by the insurer and any other investors in proportion to the market value or if there is no market, the reasonable value, of their interest in the subsidiaries.

(4) ((~~Effect of quantity limitations. To the extent that investments exceed the limitations specified in subsections (1) and (2) of this section, the excess may be assigned to the investment class authorized in RCW 48.13.061(12), until that limit is exhausted.~~

~~(5)~~)) Special rule for mutual funds, pooled investment vehicles, and other investment companies, excluding mutual funds listed on the securities valuation office's United States direct obligations/full faith and credit exempt list, class 1 list, and/or bond fund list (securities valuation office listed mutual funds). At the discretion of the commissioner, as may be deemed necessary in order to determine compliance with this chapter in relation to limitations of particular classes of investments, the commissioner may require that investments in mutual funds, pooled investment vehicles, or other investment companies be treated for purposes of this chapter as if the investor owned directly its proportional share of the assets owned by the mutual fund, pooled investment vehicle, or investment company to the extent such individual nonsecurities valuation office listed mutual funds, pooled investment vehicles, and other investment companies exceed two percent of admitted assets or, in aggregate, ten percent of admitted assets.

((~~(6)~~)) (5) Unless otherwise specified, an investment limitation computed on the basis of an insurer's admitted assets or capital and surplus shall relate to the amount required to be shown on the statutory balance sheet of the insurer most recently required to be filed with the commissioner.

((~~(7)~~)) (6) Investments authorized by RCW 48.13.061(3) shall not exceed eighty percent of the fair value of the particular property at the time of the investment, unless guaranteed or insured.

(a) The fair value shall be determined by a competent appraiser at the time of the investment.

(b) Buildings and other improvements shall be kept insured for the benefit of the mortgagee.

**Sec.**  RCW 48.13.101 and 2011 c 188 s 11 are each amended to read as follows:

(1) Invested assets may be counted ((~~toward satisfaction of the minimum~~)) as assets ((~~requirement~~)) only so far as they are invested in compliance with this chapter and applicable rules adopted and orders issued by the commissioner pursuant to this chapter. Assets other than invested assets may be counted ((~~toward satisfaction of the minimum asset requirement~~)) as assets at admitted annual statement value.

(2) An investment held as an admitted asset by an insurer on ((~~July 1, 2012, which~~)) the effective date of this section and which was qualified under this chapter shall remain qualified as an admitted asset under this chapter.

(3) Assets acquired in the bona fide enforcement of creditors' rights or in bona fide workouts or settlements of disputed claims may be counted for the purposes of subsection (1) of this section for five years after acquisition if real property and three years if not real property, even if they could not otherwise be counted under this chapter. The commissioner may allow reasonable extensions of these periods if replacement of the assets within the periods would not be possible without substantial loss.

((~~(4) If an insurer does not own, or is unable to apply toward compliance with this chapter, an amount of assets equal to its minimum asset requirement, the commissioner may deem it to be financially hazardous under chapter 48.31 RCW.~~))

NEW SECTION. **Sec.**  RCW 48.13.021 (Minimum financial security benchmark—Determination of amount) and 2011 c 188 s 3 are each repealed.

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