

CERTIFICATION OF ENROLLMENT

HOUSE BILL 2848

Chapter 221, Laws of 2000

56th Legislature
2000 Regular Session

INSURANCE COMPANY SECURITIES

EFFECTIVE DATE: 6/8/00

Passed by the House February 14, 2000
Yeas 94 Nays 1

CLYDE BALLARD
Speaker of the House of Representatives

FRANK CHOPP
Speaker of the House of Representatives

Passed by the Senate February 28, 2000
Yeas 44 Nays 0

BRAD OWEN
President of the Senate

Approved March 30, 2000

GARY LOCKE
Governor of the State of Washington

CERTIFICATE

We, Timothy A. Martin and Cynthia Zehnder, Co-Chief Clerks of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 2848** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN
Chief Clerk

CYNTHIA ZEHNDER
Chief Clerk

FILED

March 30, 2000 - 2:24 p.m.

**Secretary of State
State of Washington**

HOUSE BILL 2848

Passed Legislature - 2000 Regular Session

State of Washington

56th Legislature

2000 Regular Session

By Representatives Hatfield, Benson and Keiser; by request of Insurance Commissioner

Read first time 01/21/2000. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to the safeguarding of securities of domestic
2 insurance companies, health care service contractors, health
3 maintenance organizations, and health carriers; amending RCW 48.04.010
4 and 48.04.020; and adding new sections to chapter 48.13 RCW.

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

6 NEW SECTION. **Sec. 1.** The definitions in this section apply
7 throughout sections 1 through 6 of this act unless the context clearly
8 requires otherwise.

9 (1) "Broker" means a broker as defined in RCW 62A.8-102(1)(c).

10 (2) "Clearing corporation" means a depository corporation which
11 maintains a book entry accounting system and which meets the
12 requirements of RCW 62A.8-102(1)(e).

13 (3) "Commissioner" means the insurance commissioner of the state of
14 Washington.

15 (4) "Federal reserve book-entry securities system" means the
16 computerized systems sponsored by the United States department of the
17 treasury and certain agencies and instrumentalities of the United
18 States for holding and transferring securities of the United States
19 government and such agencies and instrumentalities, respectively, and

1 managed by the federal reserve system for participating financial
2 institutions.

3 (5) "Participating financial institution" means a depository
4 financial institution such as a national bank, state bank, savings and
5 loan, credit union, or trust company that is:

6 (a) Authorized to participate in the federal reserve book-entry
7 system; and

8 (b) Licensed by the United States or the banking authorities in its
9 state of domicile and is regularly examined by the licensing authority.

10 (6) "Qualified custodian" means either a participating financial
11 institution or a clearing corporation, or both. A qualified custodian
12 does not include a broker.

13 (7) "Securities" means instruments as defined in RCW
14 62A.8-102(1)(o).

15 NEW SECTION. **Sec. 2.** Notwithstanding any other provision of law,
16 a domestic insurance company may deposit or arrange for the deposit of
17 securities held in or purchased for its general account and its
18 separate accounts in a clearing corporation or the federal reserve
19 book-entry securities system. When securities are deposited with a
20 clearing corporation, certificates representing securities of the same
21 class of the same issuer may be merged and held in bulk in the name of
22 the nominee of such clearing corporation with any other securities
23 deposited with such clearing corporation by any person, regardless of
24 the ownership of such securities, and certificates representing
25 securities of small denominations may be merged into one or more
26 certificates of larger denominations. The records of any participating
27 financial institution through which an insurance company holds
28 securities in the federal reserve book-entry securities system, and the
29 records of any custodian banks through which an insurance company holds
30 securities in a clearing corporation, shall at all times show that such
31 securities are held for such insurance company and for which accounts
32 thereof. Ownership of, and other interests in, such securities may be
33 transferred by bookkeeping entry on the books of such clearing
34 corporation or in the federal reserve book-entry securities system
35 without, in either case, physical delivery of certificates representing
36 such securities.

1 NEW SECTION. **Sec. 3.** The following are the only authorized
2 methods of holding securities:

3 (1) A domestic insurance company may hold securities in definitive
4 certificates;

5 (2) A domestic insurance company may, pursuant to an agreement,
6 designate a participating financial institution or institutions as its
7 custodian through which it can transact and maintain book-entry
8 securities on behalf of the insurance company; or

9 (3) A domestic insurance company may, pursuant to an agreement,
10 participate in depository systems of clearing corporations directly or
11 through a custodian bank.

12 NEW SECTION. **Sec. 4.** A domestic insurance company using the
13 methods of holding securities under section 3 (2) or (3) of this act is
14 required to receive a confirmation from:

15 (1) The participating financial institution or the qualified
16 custodian whenever securities are received or surrendered pursuant to
17 the domestic insurance company's instructions to a securities broker;
18 or

19 (2) The securities broker provided that the domestic insurance
20 company has given the participating financial institution or qualified
21 custodian and the securities broker matching instructions authorizing
22 the transaction, which have been confirmed by the participating
23 financial institution or qualified custodian prior to surrendering
24 funds or securities to conduct the transaction.

25 NEW SECTION. **Sec. 5.** (1) A broker executing a securities trade
26 pursuant to an order from a domestic insurance company shall send
27 confirmation to the domestic insurance company or the clearing
28 corporation confirming the order has been executed within twenty-four
29 hours after order completion.

30 (2) A broker may not hold in its own account for longer than
31 seventy-two hours any securities bought or sold pursuant to an order
32 from a domestic insurance company.

33 NEW SECTION. **Sec. 6.** (1) Notwithstanding the maintenance of
34 securities with a qualified custodian pursuant to agreement, if the
35 commissioner:

36 (a) Has reasonable cause to believe that the domestic insurer:

1 (i) Is conducting its business and affairs in such a manner as to
2 threaten to render it insolvent;

3 (ii) Is in a hazardous condition or is conducting its business and
4 affairs in a manner that is hazardous to its policyholders, creditors,
5 or the public; or

6 (iii) Has committed or is committing or has engaged or is engaging
7 in any act that would constitute grounds for rendering it subject to
8 rehabilitation or liquidation proceedings; or

9 (b) Determines that irreparable loss and injury to the property and
10 business of the domestic insurer has occurred or may occur unless the
11 commissioner acts immediately;

12 then the commissioner may, without hearing, order the insurer and the
13 qualified custodian promptly to effect the transfer of the securities
14 to another qualified custodian approved by the commissioner. Upon
15 receipt of the order, the qualified custodian shall promptly effect the
16 transfer of the securities. Notwithstanding the pendency of any
17 hearing or request for hearing, the order shall be complied with by
18 those persons subject to that order. Any challenge to the validity of
19 the order shall be made under chapter 48.04 RCW, however, the stay of
20 action provisions of RCW 48.04.020 do not apply. It is the
21 responsibility of both the insurer and the qualified custodian to
22 oversee that compliance with the order is completed as expeditiously as
23 possible. Upon receipt of an order, there shall be no trading of the
24 securities without specific instructions from the commissioner until
25 the securities are received by the new qualified custodian, except to
26 the extent trading transactions are in process on the day the order is
27 received by the insurer and the failure to complete the trade may
28 result in loss to the insurer's account. Issuance of an order does not
29 affect the qualified custodian's liabilities with regard to the
30 securities that are the subject of the order.

31 (2) No person other than the insurer has standing at the hearing by
32 the commissioner or for any judicial review of the order.

33 NEW SECTION. **Sec. 7.** The commissioner may adopt rules to
34 implement and administer sections 1 through 6 of this act.

35 **Sec. 8.** RCW 48.04.010 and 1990 1st ex.s. c 3 s 1 are each amended
36 to read as follows:

1 (1) The commissioner may hold a hearing for any purpose within the
2 scope of this code as he or she may deem necessary. The commissioner
3 shall hold a hearing:

4 (a) If required by any provision of this code; or

5 (b) Except under section 6 of this act, upon written demand for a
6 hearing made by any person aggrieved by any act, threatened act, or
7 failure of the commissioner to act, if such failure is deemed an act
8 under any provision of this code, or by any report, promulgation, or
9 order of the commissioner other than an order on a hearing of which
10 such person was given actual notice or at which such person appeared as
11 a party, or order pursuant to the order on such hearing.

12 (2) Any such demand for a hearing shall specify in what respects
13 such person is so aggrieved and the grounds to be relied upon as basis
14 for the relief to be demanded at the hearing.

15 (3) Unless a person aggrieved by a written order of the
16 commissioner demands a hearing thereon within ninety days after
17 receiving notice of such order, or in the case of a licensee under
18 Title 48 RCW within ninety days after the commissioner has mailed the
19 order to the licensee at the most recent address shown in the
20 commissioner's licensing records for the licensee, the right to such
21 hearing shall conclusively be deemed to have been waived.

22 (4) If a hearing is demanded by a licensee whose license has been
23 temporarily suspended pursuant to RCW 48.17.540, the commissioner shall
24 hold such hearing demanded within thirty days after receipt of the
25 demand or within thirty days of the effective date of a temporary
26 license suspension issued after such demand, unless postponed by mutual
27 consent.

28 **Sec. 9.** RCW 48.04.020 and 1982 c 181 s 2 are each amended to read
29 as follows:

30 (1) Such demand for a hearing received by the commissioner prior to
31 the effective date of action taken or proposed to be taken by him or
32 her shall stay such action pending the hearing, except as to action
33 taken or proposed

34 (a) under an order on hearing, or

35 (b) under an order pursuant to an order on hearing, or

36 (c) under an order to make good an impairment of the assets of an
37 insurer, or

1 (d) under an order of temporary suspension of license issued
2 pursuant to RCW 48.17.540 as now or hereafter amended.

3 (2) In any case where an automatic stay is not provided for, and if
4 the commissioner after written request therefor fails to grant a stay,
5 the person aggrieved thereby may apply to the superior court for
6 Thurston county for a stay of the commissioner's action.

7 (3) A stay of action is not available for actions taken by the
8 commissioner under section 6 of this act.

9 NEW SECTION. Sec. 10. Sections 1 through 7 of this act are each
10 added to chapter 48.13 RCW.

Passed the House February 14, 2000.

Passed the Senate February 28, 2000.

Approved by the Governor March 30, 2000.

Filed in Office of Secretary of State March 30, 2000.