

# HOUSE BILL REPORT

## HB 1654

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### As Passed Legislature

**Title:** An act relating to borrowing money by domestic mutual insurers.

**Brief Description:** Borrowing money by domestic mutual insurers.

**Sponsors:** By Representatives Schual-Berke and Benson.

### Brief History:

#### Committee Activity:

Financial Institutions & Insurance: 2/11/03, 2/12/03 [DP].

#### Floor Activity:

Passed House: 3/11/03, 93-0.

Passed Senate: 4/15/03, 46-0.

Passed Legislature.

### Brief Summary of Bill

- Eliminates the interest rate limit on loans obtained by domestic mutual insurers and replaces it with the requirement that interest rates be "fair and reasonable."
- Allows a domestic mutual insurer to pay fair and reasonable commissions or promotional expenses in connection with the acquisition of a business loan.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Hunter, Roach and Santos.

**Staff:** Thamas Osborn (786-7129).

### Background:

The Insurance Commissioner (Commissioner) is responsible for the licensing and regulation of domestic mutual insurance companies. A domestic mutual insurer is an insurance company that is headquartered in this state, owned by its members, and operated in their interest. The members must be state residents and the policies issued by

the insurer must cover lives, property, or risks located in Washington.

Money may be borrowed by a domestic mutual insurer for business purposes, but several restrictions apply:

- the transaction must be approved in advance by the Commissioner;
- interest on the loan cannot exceed 6 percent per annum;
- no commission or promotional expenses may be paid in relation to obtaining the loan; and
- the insurer's assets may not be pledged as collateral.

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**Summary of Bill:**

The bill eliminates two of the restrictions imposed on domestic mutual insurers with respect to obtaining loans. First, the interest rate restriction is deleted and replaced with a provision stating that the interest rate must be "fair and reasonable." Second, insurers are allowed to pay "fair and reasonable" commissions or promotional expenses incurred in connection with the acquisition of a loan.

Archaic language regarding accounting practices is deleted and replaced with the requirement that such practices comply with those set forth in the National Association of Insurance Commissioners' accounting procedures manual.

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**Appropriation:** None.

**Fiscal Note:** Not Requested.

**Effective Date:** The bill takes effect ninety days after adjournment of session in which bill is passed.

**Testimony For:** The current interest rate limit is much too low and limits the ability of domestic mutual insurers to obtain financing. Similarly, the prohibition on commissions and promotional fees also makes it difficult to obtain loans on the commercial market. The lifting of the interest rate limit and allowing the payment of loan commissions will provide needed flexibility in obtaining sources of financing.

**Testimony Against:** None.

**Testified:** Katie Jacoy and Dale Abbredaris, Washington Insurers.