

SENATE BILL REPORT

HB 2817

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, February 23, 2004

Title: An act relating to insurance investments in limited liability companies formed to develop real property.

Brief Description: Regulating insurance investments in limited liability companies formed to develop real property.

Sponsors: Representatives Hatfield and Newhouse.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 2/23/04 [DP].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Berkey, Keiser, Murray, Prentice and Roach.

Staff: Joanne Conrad (786-7472)

Background: Insurers may invest its funds only as specifically authorized in the Insurance Code. With the exception of real estate and mortgage loans, all investments must be interest bearing or interest accruing or dividend or income paying. An insurer may invest in securities, real property, mortgage loans, bonds, and other investments, subject to certain limitations.

An insurer may own and invest in its home office and branch office buildings an aggregate amount not exceeding 10 percent of its assets, unless approved by the commissioner. An insurer may own real property acquired in satisfaction of a loan, mortgage, lien, judgement or other debt previously owed to the insurer. An insurer may invest in the aggregate, no more than 3 percent of its assets in the following real property: required for corporate offices; received as a gift or devise; acquired in exchange for other real property; acquired through a lawful merger or consolidation with another insurer; or, with approval of the commissioner, real property purchased to protect or enhance the value of the insurer's other real property.

An insurer may loan or invest, in the aggregate, no more than 10 percent of its assets or 50 percent of its surplus less capital and other liabilities (whichever is less). A mutual insurer may loan or invest, in the aggregate, no more than 10 percent of its assets or 50 percent of its surplus over and above the minimum required surplus amount (whichever is less).

An insurer may not invest more than 1 percent of its assets in any one investment.

A Limited Liability Company (LLC) is a relatively new business structure allowed by state statute. The LLCs are desirable because, similar to a corporation, owners have limited

personal liability for the LLC's debts and actions. The LLCs are formed by one or more individuals or entities through a special written agreement. The agreement details the organization of the LLC, including provisions for management, assignability of interests, and distribution of profits or losses.

The LLCs were created decades after the Insurance Code was adopted.

Summary of Bill: An insurer may invest in a limited liability company in order to develop its real property so long as the investment does not amount to more than 4 percent of its assets.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: Pemco would like to improve its ability to manage a parcel of Seattle real property, acquired many decades ago, but is limited by current restrictions on insurer's investments. The use of a modern LLC would allow Pemco more latitude, while maintaining consistency with treatment of other assets.

Testimony Against: None.

Testified: Jim Bricker, Steve Ricco, Pemco; Bill Daley, OIC (pro).