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HOUSE COMMITTEE REPORT

(7)

Date Referred: May 8, 1991

FURTHER REFERRALS:

Date of Committee Action: 5-10-91

The JUDICIARY Committee considered:

SB 251

SENATE BILL NO. 251

REGULATION OF SECURITIES HELD BY INSURERS

"An Act relating to regulation of securities held by insurers; and providing for an effective date."

RECOMMENDATIONS:

be replaced with HCS SB 251 (L+C) the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) CZD 4-19-91

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Terry Masten</i>	✓				
<i>Mark Kealey</i>	X				
<i>Bill Kuehn</i>	—				
<i>J. Ellis</i>	—				
<i>W. Keith Duley</i>	✓				

W. Keith Duley
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

No. 1

Bill Version: SB 251

(S) Publish Date: 4/19/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: 4/12/91
Title: Regulation of securities held
by insurers

Department Affected: Commerce & Economic Dev.
BRU: Insurance
Component: Operations

Sponsor: Senate Labor & Commerce
Requestor: Senate Labor & Commerce

COMPONENT SERIAL NO.

0	2	5	4
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)
No financial impact on the division.

Prepared By: Joan Brown, Administrative Officer Phone: 465-2597
Division: Insurance Date: 4-16-91

Approved by Commissioner: Glenn A. Olds Asst Comm.
Agency: Department of Commerce & Economic Development Date: 4-16-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 251

Revision Date: 4/12/91 Department Affected: Commerce & Economic Dev.
 Title: Regulation of securities held BRU: Insurance
by insurers Component: Operations
 Sponsor: Senate Labor & Commerce
 Requestor: Senate Labor & Commerce COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
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LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)
 No financial impact on the division.

Prepared By: Juan Brown, Administrative Officer Phone: 465-2597
 Division: Insurance Date: 4-16-91
 Approved by Commissioner: Glenn A. Olds Asst Comm.
 Agency: Department of Commerce & Economic Development Date: 4-16-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).



**STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS**

DEPARTMENT Commerce & Econ. Dev.	DIVISION Insurance	BILL NUMBER SB 251	SPONSOR Senate Labor & Commerce Comm.
SHORT TITLE OF BILL Regulation of securities held by insurers			
DEPARTMENT POSITION Recommend Passage			
PREPARED BY <i>Eugene W. Furman</i> Eugene W. Furman	DATE 4/15/91	COMMISSIONER'S SIGNATURE <i>[Signature]</i>	DATE 4-16-91

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL Alaska domestic insurers (perhaps five of which invest in mortgage backed securities)
ORGANIZATIONAL SUPPORT FOR BILL None	ORGANIZATIONAL OPPOSITION TO BILL None

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND LEGISLATIVE INTENT

This legislation will prevent the federal government's preemption of the limits imposed on investments by Alaska domestic insurers contained in AS 21.21. The Alaska Legislature passed the limits on investment in mortgage backed securities for the safety and soundness of our domestic insurance industry. Unless Alaska opts out of the federal legislation, the Alaska investment safeguards will be eliminated with respect to mortgage backed securities.

ANALYSIS OF BILL PROGRAM EFFECTS

There will be no change to the status quo. Alaska domestic insurer will remain able to invest in mortgage backed securities up to the caps contained in AS 21.21. There will be no new freedom to place all of an insurer's investments in mortgage backed securities, a risk filled possibility under federal preemption. The reader should note that the federal legislation to which SB 251 is responding was passed prior to the general collapse of the real estate markets in the Lower 48 states.

AMENDMENTS PROPOSED

None

HOUSE CS FOR SENATE BILL NO. 251 (L&C)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Offered: 5/8/91
Referred: Judiciary

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to regulation of securities held by insurers; and providing for an
2 effective date."

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

4 * Section 1. AS 21.21 is amended by adding a new section to read:

5 Sec. 21.21.255. REGULATION OF SECURITIES HELD BY INSURERS. As provided
6 under 15 U.S.C. 77r-1(b) and (c) (Secondary Mortgage Market Enhancement Act of 1984),
7 securities that are purchased, held, or invested in by an insurer shall be regulated under
8 ~~AS 21.18.150, AS 21.21.050, 21.21.260, 21.21.270, AS 21.66.030, and other applicable~~
9 ^{MS} ~~provisions~~ ^{under} of this title.

10 * Sec. 2. This Act takes effect July 1, 1991.

MEMORANDUM

State of Alaska

TO: Representative David Donley
Chairman, Judiciary Committee
Alaska State House of Representatives

DATE: May 1, 1991

FILE NO.:

THRU: Glenn Olds
Commissioner *Glenn*
Department of Commerce
and Economic Development

TELEPHONE NO.: (907) 465-2515

SUBJECT: SB 251
Federal preemption
of State Authority

FROM: David J. Walsh *DW*
Director
Division of Insurance
Department of Commerce
and Economic Development

Attached is a copy of SB 251 and all necessary back up material. The bill passed the Senate on Monday, April 29, 1991. It was read over the next day and referred to the House Labor and Commerce and Judiciary Committees. Labor and Commerce has scheduled the bill for Tuesday, May 7, 1991. This memorandum is to formally ask you to schedule SB 251 for Thursday, May 9, 1991, pending referral.

It is imperative that the bill pass this session. As you can see from the attached information, in 1984 Congress passed a bill preempting state authority to regulate the amount an insurance company can invest in the non-government-guaranteed secondary mortgage market. This bill was part of the package of legislation that gave the country junk bonds and the merger and acquisition fever that swept the nation to the detriment of many investors and insureds.

If this provision of federal law becomes effective it will gut the excellent solvency bills the legislature passed last year which restrict the amount and percentage an insurance company can invest in any one, non-government-guaranteed source. Fortunately, Congress gave the states seven years to opt out of the federal law. That seven year period expires on October 3, 1991. Therefore it is imperative that the bill pass this session.

I do not know why this was not discovered and brought to the legislature before now. All I can say is that we found it early last month, had a bill drafted, and introduced it in the Senate on April 12, 1991. Senate Labor and Commerce heard the bill and reported it out with all "do passes." Senate Judiciary waived it and it passed this past Monday on a 17-0 vote.

I know that your schedule is hectic, but this bill should not take more than ten minutes at the outside. Because of the critical nature of this legislation, I would appreciate it if you can schedule it for hearing before House Judiciary on Thursday, May 9, 1991. If you need any additional information or if you have any questions, please contact me.

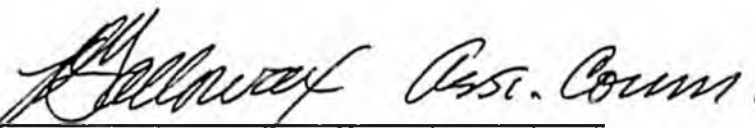
SB 251: "An Act relating to regulation of securities held by insurers; and providing for an effective date."

The Alaska Legislature passed the limits on investments contained in AS 21.21 for the purpose of promoting the safety and soundness of the Alaskan domestic insurance industry. Various pieces of AS 21.21 prevent an Alaskan insurer from concentrating its investments in one particular type of investment. Concentration in particular investment vehicles is unsafe. If that vehicle suffers problems, an insurer may become insolvent. As an example, the reader is referred to Executive Life Insurance Company's, domiciled in California, concentration of investment in junk bonds.

A number of years ago, the federal government, in an effort to provide a larger market for its agencies' mortgage backed securities, passed legislation calling for a preemption at the state level of all legislation which was designed to limit the level for mortgage backed securities to which all state regulated financial entities were allowed to invest. This federal legislation provided a certain number of years for the states individually to opt out of the loosening of mortgage backed security investment restrictions. SB 251 is Alaska's legislation designed to opt out of this federal preemption.

The reader should note that this federal legislation was passed several years prior to the current general collapse of real estate values that has occurred in the lower contiguous forty-eight states.

The Division of Insurance supports the passage of SB 251. Alaska does not wish to have its standards lowered by the action of others.



Glenn A. Olds, Commissioner

Date: 4-16-91

Alaska State Legislature

Senator Drue Pearce, Chair
Senator Virginia Collins, Vice Chair
Senator Dick Eliason
Senator Rick Hallford
Senator Jay Kerttula



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SENATE LABOR AND COMMERCE COMMITTEE

TO: ALL SENATORS

FROM: Senator Drue Pearce, Chair
Labor & Commerce Committee *Drue Pearce*

DATE: April 27, 1991

RE: SB 251 - "An Act relating to regulation of securities held by insurers; and providing for an effective date."

AS 21.21 was amended last session to set limits on investments by the Alaskan domestic insurance industry. The intent of that legislation was to prevent an Alaskan insurer from concentrating its investments in a single type of investment. A diverse investment policy helps insure total solvency should a single investment type fail.

In order to increase the market for federal agency mortgage backed securities, congress passed legislation a few years ago that would allow an insurer to concentrate their investments in federal agency backed mortgages. The states were provided a window period to adopt statute that allowed the state's investment policies to override this federal policy.

Given the recent collapse of real estate values in the Lower 48, Alaska's diverse investment policy is preferential to a policy that would allow an insurer to concentrate in a single type of investment.

SB 251 allows the state's diverse investment policy to prevail.

I urge your support.