

SENT VIA EMAIL AND U.S. MAIL

March 15, 2010

Mr. James T. Odiorne
Deputy Insurance Commissioner
Company Supervision Division
Office of Insurance Commissioner
State of Washington
P. O. Box 40255
Olympia, WA 98504-0255

Dear Deputy Commissioner Odiorne:

We appreciate the opportunity to comment on the OIC draft of the possible amendment to Chapter RCW 48.13, the Insurer Investments Act (the "Act"). The comments in this letter are offered on behalf of Premera Blue Cross as well as its subsidiaries LifeWise Health Plan of Washington and LifeWise Assurance Company. We support the comprehensive review effort and the use of the NAIC Defined Standards Model Act (the "Model Act") as the basis for the draft bill.

A. Deviations from NAIC Model Act General Limitations

Section 8 limits the amounts of certain classes of investments that an insurer may hold as admitted assets. We believe that the Model Act provides the appropriate framework for these limits and that the following deviations from the Model Act, as reflected in the OIC draft, should not be included in legislation for the reasons set forth below.

1. Section 8(1)(c) Calculation of Equity Investments: By deleting the Model Act phrase "other than subsidiaries of the types authorized by [holding company law]", the OIC draft appears to require an insurer's subsidiaries to be counted toward the aggregate limit on equity investments. This is a significant deviation from the Model Act and the current Act, and effectively lowers the amount of equities an insurer with subsidiaries can hold in its investment portfolio. For many companies, portfolio investments and subsidiaries serve different purposes: a well managed portfolio allows an insurer to benefit from market changes and provides opportunities for liquidity as well as investment return; subsidiaries generally represent longer term investments that support a company's operations and business strategies. For example, LifeWise Assurance Company provides products and services that complement Premera Blue Cross's business. In addition, a corporate structure utilizing subsidiaries may afford legal protections to a parent company. Accordingly, we respectfully request that the OIC revert to the language of the Model Act, thereby excluding subsidiaries from the calculation of investments counted toward the aggregate equity limit.
2. Section 8(1)(c)(ii) Limit on Subsidiary Investments: For the reasons set forth above, we believe this limit on investments in subsidiaries, as added to the Model Act, should be no more restrictive than the current Act, which allows an insurer to exclude subsidiary insurers, health care service contractors and health maintenance organizations from this calculation.

3. Section 8(1)(c)(i) Limit on 10% Voting Interest in Any One Entity: We believe this limitation, which does not appear in the Model Act, should not be included in the OIC draft legislation. The overall equities limit, measured based on percentage of admitted assets, addresses risk of exposure associated with equity interests. In addition, if the limit is intended to reduce an insurer's risk, the percentage of an entity's voting interest held by an insurer may not correlate to the overall risk that a particular investment represents. For example, a low dollar investment in a small company could result in a more than a 10% voting interest in that particular entity, while still being a very low percentage of the company's overall portfolio or admitted assets, and thus a very low risk to the insurer's financial position.
4. Section 8(3) Investment Subsidiaries: We also seek clarification whether the deemed ownership of assets of an insurer's subsidiaries is intended to apply only to Section 7(4)(g) investment subsidiaries.
5. Section 8(f) Limit on Foreign Securities: The treatment of foreign securities in the OIC draft differs from the Model Act in three significant ways: the limit of 10% of admitted assets (vs. 20% under the Model Act); the characterization of Canadian securities as foreign securities; and the requirement that investments be in SVO 1 debt rated countries. For these reasons, the OIC draft is more restrictive than required by either the Model Act or prudent investing practices. Global investing is part of a prudent diversification strategy, which is fundamental to managing risk in a portfolio. The measure for the diversification power of an asset is a statistic called correlation. The correlation between two assets can vary between 1, whereby the valuation of the assets move together, and -1, whereby the asset prices move in the exact opposite direction. An investor can reduce risk in a portfolio by investing in a combination of assets or asset classes that have low or negative correlations. Insurance companies invest heavily in domestic investment grade fixed income securities. International developed and emerging market equity both have low to negative correlations to the U.S. investment grade bond market. This is due, in large part, to the non-dollar exposure. In addition, as of year-end 2009, domestic equity market capitalization was less than 50% of the global total equity market capitalization. An overly restrictive limit on foreign securities investments can inhibit prudent diversification and limit an insurer's ability to take advantage of opportunities in foreign markets. Accordingly, we respectfully request that the OIC draft revert to the Model Act's limit and definition of foreign securities.

B. OIC Rulemaking Authority

We support the Model Act's approach of setting a reasonable financial security benchmark, under which admitted assets counted toward satisfaction of the requirement must be invested according to the Act. We also understand and agree that the OIC must preserve some rulemaking authority to interpret and implement the Act where necessary and appropriate. However, we are concerned that, as currently drafted, the broad authority afforded the Commissioner in several sections of the OIC draft will not provide adequate certainty to insurers in setting and following investment policies. Specifically, we are concerned with the ability of the Commissioner in: a) Section 3(c), to establish a higher minimum financial security benchmark for a class of insurers by rule; b) Section 14, to impose additional investment restrictions, including prohibition or divestment of investments; and c) Section 18, to prescribe additional investment restrictions by rule. The minimum financial security benchmark should be clearly identified in the Act (the OIC draft currently appears to indicate this benchmark is the greater of (i) the authorized control level risk based capital or (ii) minimum capital or minimum surplus). That threshold should be the standard upon which insurers can rely in setting and following investment policies. Any changes to the minimum benchmark for a class of insurers, as well as any new investment

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requirements or limitations an insurer is expected to follow, should be addressed through the legislative process with sufficient notice to allow an insurer to adjust its investment policy and balance its portfolio assets.

C. Investment Policy vs. Procedures

As drafted, Section 6(1) appears to require the Board approved investment policy include "policies, procedures and controls covering all aspects of the investing function." While we support the maintenance of procedures and controls, we believe these should reside outside the investment policy. We do not believe it would be practical to require Board approval of the policy each time a procedure changes.

Once again, thank you for the opportunity to participate in the discussions and preliminary feedback, and to comment on this draft. We respectfully urge you to consider our comments stated above and to incorporate the proposed revisions into your next working draft. If you have questions, please feel free to contact me. We look forward to continuing to work with you on this subject.

Sincerely,



Sharilyn Campbell
Vice President, Finance