FINAL BILL REPORT
HB 2490

C 297 L 96
Synopsis as Enacted

Brief Description: Providing for credit for reinsurance of trust fund maintained that meets national association of insurance commissioners standards.

Sponsors: Representatives L. Thomas, Dyer, Grant and Kessler.

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Institutions & Housing
Senate Committee on Ways & Means

Background: The Office of the Insurance Commissioner oversees the corporate and financial activities of insurance companies. All companies authorized to conduct insurance operations in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations. Life, disability, and property and casualty insurers must also meet risk-based capital requirements.

Reinsurance is an insurance product purchased by an insurance company to pass some of the risk assumed by the insurance company onto the reinsurer. Because an insurance company's exposure to financial loss is reduced by the purchase of reinsurance, statutory provisions allow the insurance company to take a credit for the reinsurance as if it were an asset. This credit improves the reported financial condition of the insurance company obtaining the reinsurance. However, the statutory provisions permit such a credit for reinsurance only when specified standards are met, standards which are designed to ensure the financial soundness of the reinsurance.

When the reinsurer is not licensed to transact business in the state of Washington, the Washington insurer can still claim the reinsurance on its financial statement as long as certain statutory provisions are met: (1) the reinsurance is through Lloyds of London (which maintains a trust fund in the United States to cover liabilities attributable to business in the United States plus $100 million); or (2) the credit equals the amount of funds or the amount of a letter of credit that is security for the insurer purchasing the reinsurance.

Insurance company liabilities are somewhat unique and are generally different than the traditional concept of liabilities on financial statements. Insurer liabilities typically are a portion of the unearned premiums, unpaid losses and loss adjustment expenses, policy reserves, and claims reserves, depending on the type of insurer.

Summary: After January 1, 1997, credit for reinsurance provided by a reinsurer not authorized to do business in Washington also may be taken by an insurance company if the reinsurer maintains a trust fund in the United States to cover liabilities attributable to business in the Unites States plus $20 million. The bank in which the trust fund is established must meet the standards of the National Association of Insurance Commissioners. The Insurance Commissioner must conduct a study and adopt rules regarding safely administering the new reinsurance authorization.

Votes on Final Passage:

House	95	2	
Senate	48	0	(Senate amended)
House			(House refused to concur)
Senate			(Senate refused to recede)

Conference Committee

Senate	47	0
House	98	0

Effective: March 30, 1996 (Sections 2 and 3)
January 1, 1997 (Section 1)