SENATE BILL REPORT

HB 2490

As Reported By Senate Committee On:
Financial Institutions & Housing, February 22, 1996
Ways & Means, February 26, 1996

Title: An act relating to credit for reinsured ceded risks.

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.

Brief History:
Committee Activity: Financial Institutions & Housing: 2/15/96, 2/22/96 [DPA-WM].
Ways & Means: 2/26/96 [DPA (FIH)].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

Staff: Katie Healy (786-7403)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Financial Institutions & Housing.
Signed by Senators Loveland, Vice Chair; Bauer, Cantu, Drew, Finkbeiner, Fraser, Hargrove, Hochstatter, Kohl, Long, McDonald, Pelz, Quigley, Roach, Sheldon, Snyder, Spanel, Strannigan, Sutherland, West, Winsley and Wojahn.

Staff: Steve Jones (786-7440)

Background: The office of the Insurance Commissioner oversees the corporate and financial activities of insurance companies. All companies authorized to conduct insurance operations in this state 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 on to 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, which standards are designed to ensure the financial soundness of the reinsurance.

When the reinsurer is not licensed to transact business in 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 of Amended Bill: 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 United 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 credit and trust provisions do not become effective until July 1, 1997.

In the meantime, the Insurance Commissioner's office is to conduct a study to determine the safety, soundness, and administrative feasibility of the credit and trust provisions. The results of the study, along with any recommended legislation, must be reported to the Legislature by January 1, 1997. The Insurance Commissioner's office is required to adopt implementing rules to effectuate this legislation.

Amended Bill Compared to Original Bill: The striking amendment adds to the original bill the provisions requiring a study and delaying the implementation of the credit and trust provisions to July 1, 1997.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill is based on a national model act for reinsurance. The proponents are not aware of any other state which has done anything other than support this measure. The bill would streamline efficiencies and increase solvency. This bill provides an alternative way for international insurers to support Washington insurers. This is a significant commitment to the United States. The letters of credit are an additional cost. Fly-by-night operators would not subject themselves to these requirements.

Testimony Against: The opposition is more a lack of understanding of this bill. The Insurance Commissioner's office has never had to deal with amendments to the asset credit statute. There is reluctance to weaken the protections of the statute by foregoing the requirement of letters of credit. Foreign insurance companies can presently operate in this state if they are authorized companies or unauthorized companies with the appropriate letters of credit. The model act is being revised so any delay would allow this legislation to be current with the new revisions.

Testified: Mel Sorensen, Bill Marcoux, LeBoeuf, Lamb, Greene and Macrae (pro); John Woodall, OIC (con).