

SENATE BILL REPORT

SB 5430

As Passed Senate, March 8, 1995

Title: An act relating to the capital and surplus requirements of insurance companies.

Brief Description: Regulating the capital and surplus requirements of insurance companies.

Sponsors: Senators Prentice and Hale; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Housing: 2/9/95, 2/16/95 [DP].
Passed Senate, 3/8/95, 46-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Hale, Roach, Sellar and Sutherland.

Staff: Catherine Mele (786-7470)

Background: The Office of the Insurance Commissioner regulates the corporate and financial activities of insurance companies. All companies authorized to conduct business in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations.

Generally, the states are responsible for the regulation of insurance. The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies which coordinates the regulation of insurance. The NAIC often develops model laws in order to coordinate such regulations.

For life and disability insurance companies, the Insurance Commissioner is authorized to increase the capital and surplus requirements above those in statute when consistent with methods or requirements adopted by the NAIC, or based on risk-based capital principles of the NAIC. The commissioner has created rules regarding a risk-based capital program for life and disability companies.

Summary of Bill: A risk-based capital (RBC) program for life, disability, and property and casualty insurance companies is established by statute. The RBC program is based on the NAIC model.

Every domestic insurance company annually must file a RBC report. The report must be filed with the Washington Insurance Commissioner, the NAIC, and with the insurance agency of the state where the insurance company is authorized to do business. The report provides RBC rating levels based on a formula and factors developed by the NAIC. The Insurance Commissioner can adjust the RBC report if the commissioner believes the report

is inaccurate. The Insurance Commissioner can request that a foreign or alien insurer file an RBC report with the Insurance Commissioner.

If an insurance company's level of capital is less than certain RBC standards based on NAIC formulas, the company must submit a RBC plan to the Insurance Commissioner that describes the problems and contains proposals to resolve them. Other corrective action may be required, depending on the severity of the capital deficiency based on RBC standards.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill gives the Office of the Insurance Commissioner the authority to monitor insurance carriers more closely. Risked Based Capital programs work well in other states which have implemented them. With Risked Based Capital programs, the Insurance Commissioner assesses the riskiness of companies through an examination of various business practices.

Testimony Against: None.

Testified: John Woodall, Office of the Insurance Commissioner (pro); Mel Sorensen, NAI (pro); Basil Badley (pro); Nancy Bratton, Safeco (pro); Jerry Lynch, Alliance of American Insurers (pro).