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HOUSE BILL 1374

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State of Washington

54th Legislature

1995 Regular Session

By Representatives L. Thomas, Wolfe, Kessler, Dyer and Jacobsen; by request of Insurance Commissioner

Read first time 01/23/95. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to unearned premium, loss, and loss expense  
2 reserves of insurance companies; and amending RCW 48.12.040, 48.12.090,  
3 48.12.100, 48.12.120, and 48.12.130.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 48.12.040 and 1973 1st ex.s. c 162 s 2 are each  
6 amended to read as follows:

7 (1) With reference to insurances against loss or damage to  
8 property, except as provided in RCW 48.12.050, and with reference to  
9 all general casualty insurances, and surety insurances, every insurer  
10 shall maintain an unearned premium reserve on all policies in force.

11 (2) The commissioner may require that such reserve shall be equal  
12 to the unearned portions of the gross premiums in force after deducting  
13 authorized reinsurance, as computed on each respective risk from the  
14 policy's date of issue. If the commissioner does not so require, the  
15 portions of the gross premiums in force, less authorized reinsurance,  
16 to be held as a premium reserve, shall be computed according to the  
17 following table:

1	Term for which policy	Reserve for
2	was written	unearned premium
3	One year, or less . . . . .	1/2
4	Two years . . . . .	First year 3/4
5		Second year 1/4
6	Three years . . . . .	First year 5/6
7		Second year 1/2
8		Third year 1/6
9	Four years . . . . .	First year 7/8
10		Second year 5/8
11		Third year 3/8
12		Fourth year 1/8
13	Five years . . . . .	First year 9/10
14		Second year 7/10
15		Third year 1/2
16		Fourth year 3/10
17		Fifth year 1/10
18	Over five years . . . . .	Pro rata

19 (3) In lieu of computation according to such table, all of such  
20 reserves may be computed, at the insurer's option, on a monthly pro  
21 rata basis.

22 (4) After adopting any one of the methods for computing such  
23 reserve an insurer shall not change methods without the commissioner's  
24 approval.

25 (5) If, for certain policies, the insurer's exposure to loss is  
26 uneven over the policy term, the commissioner may grant permission to  
27 the insurer to use a different method of calculating the unearned  
28 premium reserve on those certain policies.

29 **Sec. 2.** RCW 48.12.090 and 1947 c 79 s .12.09 are each amended to  
30 read as follows:

31 The reserves for outstanding losses and loss expenses under  
32 policies of personal injury liability insurance and under policies of  
33 employer's liability insurance shall be computed as follows:

34 (1) ~~((For all liability suits being defended under policies~~  
35 ~~written:~~

36 ~~(a) Ten years or more prior to the date of determination, one~~  
37 ~~thousand five hundred dollars for each suit;~~

1       ~~(b) Five or more and less than ten years prior to the date of~~  
2 ~~determination, one thousand dollars for each suit;~~

3       ~~(c) Three or more and less than five years prior to the date of~~  
4 ~~determination, eight hundred fifty dollars for each suit.~~

5       ~~In any event the total loss and loss expense reserves for all such~~  
6 ~~liability policies written more than three years prior to the date of~~  
7 ~~determination shall not be less than the aggregate of the estimated~~  
8 ~~unpaid losses and loss expenses under such policies computed on an~~  
9 ~~individual case basis.~~

10       ~~(2) For all liability policies written during the three years~~  
11 ~~immediately preceding the date of determination, such reserves shall be~~  
12 ~~the sum of the reserves for each such year, which shall be sixty~~  
13 ~~percent of the earned premiums on liability policies written during~~  
14 ~~such year less all loss and loss expense payments made under such~~  
15 ~~policies written in such year. In any event such reserves for each of~~  
16 ~~such three years shall be not less than the aggregate of the estimated~~  
17 ~~unpaid losses and loss expenses for claims incurred under liability~~  
18 ~~policies written in the corresponding year computed on an individual~~  
19 ~~case basis.)) The reserves for outstanding losses and loss expenses~~  
20 ~~under policies of personal injury liability insurance and under~~  
21 ~~policies of employer's liability insurance shall be computed in~~  
22 ~~accordance with accepted loss-reserving standards and principles and~~  
23 ~~shall make a reasonable provision for all unpaid loss and loss expense~~  
24 ~~obligations of the insurer under the terms of such policies.~~

25       ~~(2) Reserves under liability policies written during the three~~  
26 ~~years immediately preceding the date of determination shall include any~~  
27 ~~additional reserves required by the annual statement instructions of~~  
28 ~~the national association of insurance commissioners.~~

29       **Sec. 3.** RCW 48.12.100 and 1947 c 79 s .12.10 are each amended to  
30 read as follows:

31       ~~((1) All unallocated liability loss expense payments shall be~~  
32 ~~distributed as follows:~~

33       ~~(a) If made in a given calendar year subsequent to the first four~~  
34 ~~years in which an insurer has been issuing liability policies, thirty-~~  
35 ~~five percent shall be charged to the policies written that year, forty~~  
36 ~~percent to the policies written in the preceding year, ten percent to~~  
37 ~~the policies written in the second year preceding, ten percent to the~~

1 ~~policies written in the third year preceding and five percent to the~~  
2 ~~policies written in the fourth year preceding.~~

3 ~~(b) If made in each of the first four calendar years in which an~~  
4 ~~insurer issues liability policies, in the first calendar year one~~  
5 ~~hundred percent shall be charged to the policies written in that year;~~  
6 ~~in the second calendar year fifty percent shall be charged to the~~  
7 ~~policies written in that year and fifty percent to the policies written~~  
8 ~~in the preceding year; in the third calendar year forty percent shall~~  
9 ~~be charged to the policies written in that year, forty percent to the~~  
10 ~~policies written in the preceding year, and twenty percent to the~~  
11 ~~policies written in the second year preceding; and in the fourth~~  
12 ~~calendar year thirty five percent shall be charged to the policies~~  
13 ~~written in that year, forty percent to the policies written in the~~  
14 ~~preceding year, fifteen percent to the policies written in the second~~  
15 ~~year preceding and ten percent to the policies written in the third~~  
16 ~~year preceding.~~

17 ~~(2) A schedule showing such distribution shall be included in the~~  
18 ~~annual statement.)~~

19 Subject to any restrictions contained in the annual statement  
20 instructions or accounting practices and procedures manuals of the  
21 national association of insurance commissioners, all unallocated  
22 liability loss expense payments shall be distributed as follows:

23 (1) All payments associated with particular claims shall be  
24 distributed to the year in which the claim was covered; and

25 (2) All other payments shall be distributed by year in a reasonable  
26 manner.

27 **Sec. 4.** RCW 48.12.120 and 1987 c 185 s 20 are each amended to read  
28 as follows:

29 The loss reserve for workers' compensation insurance shall be as  
30 follows:

31 (1) For all compensation claims under policies of compensation  
32 insurance written more than three years prior to the date ~~((as of which~~  
33 ~~the statement is made))~~ of determination, the loss reserve shall be not  
34 less than the present values at four percent interest of the determined  
35 and the estimated future payments.

36 (2) For all compensation claims under policies of compensation  
37 insurance written in the three years immediately preceding the date  
38 ~~((as of which the statement is made))~~ of determination, the loss

1 reserve shall be (~~sixty-five percent of the earned compensation~~  
2 ~~premiums of each of such three years, less all loss and loss expense~~  
3 ~~payments made in connection with such claims under policies written in~~  
4 ~~the corresponding years; but in any event such reserve shall be~~) not  
5 less than the present value at three and one-half percent interest of  
6 the determined and the estimated (~~unpaid compensation claims under~~  
7 ~~policies written during each of such years~~) future payments, and shall  
8 include any additional reserves required by the annual statement  
9 instructions of the national association of insurance commissioners.

10 **Sec. 5.** RCW 48.12.130 and 1987 c 185 s 21 are each amended to read  
11 as follows:

12 (~~(1) All unallocated workers' compensation loss expense payments~~  
13 ~~shall be distributed as follows:~~

14 (a) ~~If made in a given calendar year subsequent to the first three~~  
15 ~~years in which an insurer has been issuing such compensation policies,~~  
16 ~~forty percent shall be charged to the policies written in that year,~~  
17 ~~forty-five percent to the policies written in the preceding year, ten~~  
18 ~~percent to the policies written in the second year preceding and five~~  
19 ~~percent to the policies written in the third year preceding.~~

20 (b) ~~If made in each of the first three calendar years in which an~~  
21 ~~insurer issues compensation policies, in the first calendar year one~~  
22 ~~hundred percent shall be charged to the policies written in that year;~~  
23 ~~in the second calendar year fifty percent shall be charged to the~~  
24 ~~policies written in that year, and fifty percent to the policies~~  
25 ~~written in the preceding year; in the third calendar year forty-five~~  
26 ~~percent shall be charged to the policies written in that year, forty-~~  
27 ~~five percent to the policies written in the preceding year and ten~~  
28 ~~percent to the policies written in the second year preceding.~~

29 (~~2) A schedule showing such distribution shall be included in the~~  
30 ~~annual statement.~~)

31 Subject to any restrictions contained in the annual statement  
32 instructions or accounting practices and procedures manuals of the  
33 national association of insurance commissioners, all unallocated  
34 workers' compensation loss expense payments shall be distributed as  
35 follows:

36 (1) All payments associated with particular claims shall be  
37 distributed to the year in which the claim was covered; and

1        (2) All other payments shall be distributed by year in a reasonable  
2 manner.

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