

# HOUSE BILL REPORT

## HB 1693

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**As Reported By House Committee On:**  
Financial Institutions & Insurance

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

**Brief Description:** Allowing credit for reinsured ceded risks.

**Sponsors:** Representatives L. Thomas and Wolfe.

**Brief History:**

**Committee Activity:**

Financial Institutions & Insurance: 2/12/97, 2/13/97 [DPS].

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives L. Thomas, Chairman; Smith, Vice Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Constantine; DeBolt; Keiser; Sullivan and Wensman.

**Staff:** Charlie Gavigan (786-7340).

**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); (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; or (3) the reinsurer maintains a trust fund in the United States to cover liabilities attributable to business in the United States plus \$20 million.

A domestic insurance company is one organized under Washington law; an alien insurance company is one organized under the laws of a nation other than the United States; and a foreign insurance company is one organized under the laws of another state.

**Summary of Substitute Bill:** Reinsurance contracts entered into by Washington insurance companies must provide that in the event the insurance company becomes insolvent, the portion of the risk assumed by the reinsurer is payable to the conservator, liquidator, or successor. Payment under a reinsurance contract must be made within a reasonable time. Credit for reinsurance can only be taken if the reinsurance involves an actual transfer of risk.

Alien reinsurers providing reinsurance to Washington insurance companies must register with the insurance commissioner and agree to abide by certain requirements regarding the trust account and meet certain reporting requirements. The insurance commissioner can revoke an alien reinsurer's registration for specified reasons, including an unsafe financial condition.

Foreign insurance companies are allowed credit for reinsurance provided their home state is accredited by the National Association of Insurance Commissioners, or credit for the reinsurance would be allowed under Washington law if the insurance company were domiciled in Washington.

**Substitute Bill Compared to Original Bill:** The substitute makes clarifications and changes to oversight of the trust required of an alien reinsurer.

**Appropriation:** None.

**Fiscal Note:** Requested on February 10, 1997.

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

**Testimony For:** This bill makes technical changes and tune-ups to the policy decision made last year to expand the ability of reinsurers from other countries to

provide reinsurance to Washington insurance companies. It more clearly defines the ability of the insurance commissioner to ensure that reinsurance through companies domiciled in other countries is reliable.

**Testimony Against:** None.

**Testified:** John Woodall, Office of the Insurance Commissioner (supports); and Mel Sorensen of LeBoeuf, Lamb, Greene, and MacRae and the National Association of Independent Insurers (supports).