

CERTIFICATION OF ENROLLMENT

ENGROSSED SENATE BILL 5437

Chapter 86, Laws of 1995

54th Legislature
1995 Regular Session

Insurers, certified health plans, health service contractors,
and health maintenance organizations--Disclosure of
material transactions

EFFECTIVE DATE: 7/23/95

Passed by the Senate March 10, 1995
YEAS 47 NAYS 0

JOEL PRITCHARD

President of the Senate

Passed by the House April 6, 1995
YEAS 97 NAYS 0

CLYDE BALLARD

**Speaker of the
House of Representatives**

Approved April 18, 1995

MIKE LOWRY

Governor of the State of Washington

CERTIFICATE

I, Marty Brown, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **ENGROSSED SENATE BILL 5437** as passed by the Senate and the House of Representatives on the dates hereon set forth.

MARTY BROWN

Secretary

FILED

April 18, 1995 - 1:15 p.m.

**Secretary of State
State of Washington**

ENGROSSED SENATE BILL 5437

Passed Legislature - 1995 Regular Session

State of Washington

54th Legislature

1995 Regular Session

By Senator Prentice; by request of Insurance Commissioner

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

1 AN ACT Relating to the disclosure of material transactions of
2 insurance companies, certified health plans, health service
3 contractors, and health maintenance organizations; adding new sections
4 to chapter 48.05 RCW; adding new sections to chapter 48.43 RCW; adding
5 new sections to chapter 48.44 RCW; adding new sections to chapter 48.46
6 RCW; and adding a new section to chapter 42.17 RCW.

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

8 NEW SECTION. **Sec. 1.** (1) Every insurer domiciled in this state
9 shall file a report with the commissioner disclosing material
10 acquisitions and dispositions of assets or material nonrenewals,
11 cancellations, or revisions of ceded reinsurance agreements unless
12 these acquisitions and dispositions of assets or material nonrenewals,
13 cancellations, or revisions of ceded reinsurance agreements have been
14 submitted to the commissioner for review, approval, or information
15 purposes under other provisions of this title or other requirements.

16 (2) The report required in subsection (1) of this section is due
17 within fifteen days after the end of the calendar month in which any of
18 the transactions occur.

1 (3) One complete copy of the report, including any exhibits or
2 other attachments filed as part of the report, shall be filed with the:

3 (a) Commissioner; and

4 (b) National association of insurance commissioners.

5 (4) All reports obtained by or disclosed to the commissioner under
6 this section and sections 2 through 6 of this act are exempt from
7 public inspection and copying and are not subject to subpoena. These
8 reports shall not be made public by the commissioner, the national
9 association of insurance commissioners, or any other person, except to
10 insurance departments of other states, without the prior written
11 consent of the insurer to which it pertains unless the commissioner,
12 after giving the insurer that would be affected by disclosure notice
13 and a hearing under chapter 48.04 RCW, determines that the interest of
14 policyholders, shareholders, or the public will be served by the
15 publication, in which event the commissioner may publish all or any
16 part of the report in the manner he or she deems appropriate.

17 NEW SECTION. **Sec. 2.** No acquisitions or dispositions of assets
18 need be reported under section 1 of this act if the acquisitions or
19 dispositions are not material. For purposes of sections 1 through 6 of
20 this act, a material acquisition, or the aggregate of any series of
21 related acquisitions during any thirty-day period; or disposition, or
22 the aggregate of any series of related dispositions during any thirty-
23 day period is an acquisition or disposition that is nonrecurring and
24 not in the ordinary course of business and involves more than five
25 percent of the reporting insurer's total assets as reported in its most
26 recent statutory statement filed with the commissioner.

27 NEW SECTION. **Sec. 3.** (1) Asset acquisitions subject to sections
28 1 through 6 of this act include every purchase, lease, exchange,
29 merger, consolidation, succession, or other acquisition other than the
30 construction or development of real property by or for the reporting
31 insurer or the acquisition of materials for such a purpose.

32 (2) Asset dispositions subject to sections 1 through 6 of this act
33 include every sale, lease, exchange, merger, consolidation, mortgage,
34 hypothecation, abandonment, destruction, other disposition, or
35 assignment, whether the assignment is for the benefit of creditors or
36 otherwise.

1 NEW SECTION. **Sec. 4.** (1) The following information is required to
2 be disclosed in any report of a material acquisition or disposition of
3 assets:

4 (a) Date of the transaction;

5 (b) Manner of acquisition or disposition;

6 (c) Description of the assets involved;

7 (d) Nature and amount of the consideration given or received;

8 (e) Purpose of or reason for the transaction;

9 (f) Manner by which the amount of consideration was determined;

10 (g) Gain or loss recognized or realized as a result of the
11 transaction; and

12 (h) Names of the persons from whom the assets were acquired or to
13 whom they were disposed.

14 (2) Insurers are required to report material acquisitions and
15 dispositions on a nonconsolidated basis unless the insurer is part of
16 a consolidated group of insurers that utilizes a pooling arrangement or
17 one hundred percent reinsurance agreement that affects the solvency and
18 integrity of the insurer's reserves and such an insurer ceded
19 substantially all of its direct and assumed business to the pool. An
20 insurer has ceded substantially all of its direct and assumed business
21 to a pool if the insurer has less than one million dollars total direct
22 plus assumed written premiums during a calendar year that are not
23 subject to a pooling arrangement and the net income of the business not
24 subject to the pooling arrangement represents less than five percent of
25 the insurer's capital and surplus.

26 NEW SECTION. **Sec. 5.** (1) No nonrenewals, cancellations, or
27 revisions of ceded reinsurance agreements need be reported under
28 section 1 of this act if the nonrenewals, cancellations, or revisions
29 are not material. For purposes of sections 1 through 6 of this act, a
30 material nonrenewal, cancellation, or revision is one that affects:

31 (a) More than fifty percent of a property and casualty insurer's
32 total ceded written premium;

33 (b) More than fifty percent of the property and casualty insurer's
34 total ceded indemnity and loss adjustment reserves;

35 (c) More than fifty percent of a nonproperty and casualty insurer's
36 total reserve credit taken for business ceded, on an annualized basis,
37 as indicated in the insurer's most recent annual statement;

1 (d) More than ten percent of an insurer's total cession when it is
2 replaced by one or more unauthorized reinsurers; or

3 (e) Previously established collateral requirements, when they have
4 been reduced or waived as respects one or more unauthorized reinsurers
5 representing collectively more than ten percent of a total cession.

6 (2) However, a filing is not required if:

7 (a) A property and casualty insurer's total ceded written premium
8 represents, on an annualized basis, less than ten percent of its total
9 written premium for direct and assumed business; or

10 (b) A nonproperty and casualty insurer's total reserve credit taken
11 for business ceded represents, on an annualized basis, less than ten
12 percent of the statutory reserve requirement prior to any cession.

13 NEW SECTION. **Sec. 6.** (1) The following is required to be
14 disclosed in any report of a material nonrenewal, cancellation, or
15 revision of ceded reinsurance agreements:

16 (a) The effective date of the nonrenewal, cancellation, or
17 revision;

18 (b) The description of the transaction with an identification of
19 the initiator;

20 (c) The purpose of or reason for the transaction; and

21 (d) If applicable, the identity of the replacement reinsurers.

22 (2) Insurers are required to report all material nonrenewals,
23 cancellations, or revisions of ceded reinsurance agreements on a
24 nonconsolidated basis unless the insurer is part of a consolidated
25 group of insurers that utilizes a pooling arrangement or one hundred
26 percent reinsurance agreement that affects the solvency and integrity
27 of the insurer's reserves and the insurer ceded substantially all of
28 its direct and assumed business to the pool. An insurer has ceded
29 substantially all of its direct and assumed business to a pool if the
30 insurer has less than one million dollars total direct plus assumed
31 written premiums during a calendar year that are not subject to a
32 pooling arrangement and the net income of the business not subject to
33 the pooling arrangement represents less than five percent of the
34 insurer's capital and surplus.

35 NEW SECTION. **Sec. 7.** (1) Every certified health plan domiciled in
36 this state shall file a report with the commissioner disclosing
37 material acquisitions and dispositions of assets or material

1 nonrenewals, cancellations, or revisions of ceded reinsurance
2 agreements unless these acquisitions and dispositions of assets or
3 material nonrenewals, cancellations, or revisions of ceded reinsurance
4 agreements have been submitted to the commissioner for review,
5 approval, or information purposes under other provisions of this title
6 or other requirements.

7 (2) The report required in subsection (1) of this section is due
8 within fifteen days after the end of the calendar month in which any
9 of the transactions occur.

10 (3) One complete copy of the report, including any exhibits or
11 other attachments filed as part of the report, shall be filed with the:

12 (a) Commissioner; and

13 (b) National association of insurance commissioners.

14 (4) All reports obtained by or disclosed to the commissioner under
15 this section and sections 8 through 12 of this act are exempt from
16 public inspection and copying and shall not be subject to subpoena.
17 These reports shall not be made public by the commissioner, the
18 national association of insurance commissioners, or any other person,
19 except to insurance departments of other states, without the prior
20 written consent of the certified health plan to which it pertains
21 unless the commissioner, after giving the certified health plan that
22 would be affected by disclosure notice and a hearing under chapter
23 48.04 RCW, determines that the interest of policyholders, subscribers,
24 shareholders, or the public will be served by the publication, in which
25 event the commissioner may publish all or any part of the report in the
26 manner he or she deems appropriate.

27 NEW SECTION. **Sec. 8.** No acquisitions or dispositions of assets
28 need be reported pursuant to section 7 of this act if the acquisitions
29 or dispositions are not material. For purposes of sections 7 through 12
30 of this act, a material acquisition, or the aggregate of any series of
31 related acquisitions during any thirty-day period; or disposition, or
32 the aggregate of any series of related dispositions during any thirty-
33 day period is an acquisition or disposition that is nonrecurring and
34 not in the ordinary course of business and involves more than five
35 percent of the reporting certified health plan's total assets as
36 reported in its most recent statutory statement filed with the
37 commissioner.

1 NEW SECTION. **Sec. 9.** (1) Asset acquisitions subject to sections
2 7 through 12 of this act include every purchase, lease, exchange,
3 merger, consolidation, succession, or other acquisition other than the
4 construction or development of real property by or for the reporting
5 certified health plan or the acquisition of materials for such purpose.

6 (2) Asset dispositions subject to sections 7 through 12 of this act
7 include every sale, lease, exchange, merger, consolidation, mortgage,
8 hypothecation, abandonment, destruction, other disposition, or
9 assignment, whether for the benefit of creditors or otherwise.

10 NEW SECTION. **Sec. 10.** (1) The following information is required
11 to be disclosed in any report of a material acquisition or disposition
12 of assets:

- 13 (a) Date of the transaction;
- 14 (b) Manner of acquisition or disposition;
- 15 (c) Description of the assets involved;
- 16 (d) Nature and amount of the consideration given or received;
- 17 (e) Purpose of or reason for the transaction;
- 18 (f) Manner by which the amount of consideration was determined;
- 19 (g) Gain or loss recognized or realized as a result of the
20 transaction; and
- 21 (h) Names of the persons from whom the assets were acquired or to
22 whom they were disposed.

23 (2) Certified health plans are required to report material
24 acquisitions and dispositions on a nonconsolidated basis unless the
25 certified health plan is part of a consolidated group of insurers that
26 utilizes a pooling arrangement or one hundred percent reinsurance
27 agreement that affects the solvency and integrity of the certified
28 health plan's reserves and such certified health plan ceded
29 substantially all of its direct and assumed business to the pool. A
30 certified health plan has ceded substantially all of its direct and
31 assumed business to a pool if the certified health plan has less than
32 one million dollars total direct plus assumed written premiums during
33 a calendar year that are not subject to a pooling arrangement and the
34 net income of the business not subject to the pooling arrangement
35 represents less than five percent of the certified health plan's net
36 worth.

1 NEW SECTION. **Sec. 11.** (1) No nonrenewals, cancellations, or
2 revisions of ceded reinsurance agreements need be reported under
3 section 7 of this act if the nonrenewals, cancellations, or revisions
4 are not material. For purposes of sections 7 through 12 of this act, a
5 material nonrenewal, cancellation, or revision is one that affects:

6 (a) More than fifty percent of a certified health plan's total
7 reserve credit taken for business ceded, on an annualized basis, as
8 indicated in the certified health plan's most recent annual statement;

9 (b) More than ten percent of a certified health plan's total
10 cession when it is replaced by one or more unauthorized reinsurers; or

11 (c) Previously established collateral requirements, when they have
12 been reduced or waived as respects one or more unauthorized reinsurers
13 representing collectively more than ten percent of a total cession.

14 (2) However, a filing is not required if the certified health
15 plan's total reserve credit taken for business ceded represents, on an
16 annualized basis, less than ten percent of the statutory reserve
17 requirement prior to any cession.

18 NEW SECTION. **Sec. 12.** (1) The following is required to be
19 disclosed in any report of a material nonrenewal, cancellation, or
20 revision of ceded reinsurance agreements:

21 (a) The effective date of the nonrenewal, cancellation, or
22 revision;

23 (b) The description of the transaction with an identification of
24 the initiator;

25 (c) The purpose of or reason for the transaction; and

26 (d) If applicable, the identity of the replacement reinsurers.

27 (2) Certified health plans are required to report all material
28 nonrenewals, cancellations, or revisions of ceded reinsurance
29 agreements on a nonconsolidated basis unless the certified health plan
30 is part of a consolidated group of insurers which utilizes a pooling
31 arrangement or one hundred percent reinsurance agreement that affects
32 the solvency and integrity of the certified health plan's reserves and
33 the certified health plan ceded substantially all of its direct and
34 assumed business to the pool. A certified health plan has ceded
35 substantially all of its direct and assumed business to a pool if the
36 certified health plan has less than one million dollars total direct
37 plus assumed written premiums during a calendar year that are not
38 subject to a pooling arrangement and the net income of the business not

1 subject to the pooling arrangement represents less than five percent of
2 the certified health plan's net worth.

3 NEW SECTION. **Sec. 13.** (1) Every health care service contractor
4 domiciled in this state shall file a report with the commissioner
5 disclosing material acquisitions and dispositions of assets or material
6 nonrenewals, cancellations, or revisions of ceded reinsurance
7 agreements unless these acquisitions and dispositions of assets or
8 material nonrenewals, cancellations, or revisions of ceded reinsurance
9 agreements have been submitted to the commissioner for review,
10 approval, or information purposes under other provisions of this title
11 or other requirements.

12 (2) The report required in subsection (1) of this section is due
13 within fifteen days after the end of the calendar month in which any
14 of the transactions occur.

15 (3) One complete copy of the report, including any exhibits or
16 other attachments filed as part of the report, shall be filed with the:

17 (a) Commissioner; and

18 (b) National association of insurance commissioners.

19 (4) All reports obtained by or disclosed to the commissioner under
20 this section and sections 14 through 18 of this act are exempt from
21 public inspection and copying and shall not be subject to subpoena.
22 These reports shall not be made public by the commissioner, the
23 national association of insurance commissioners, or any other person,
24 except to insurance departments of other states, without the prior
25 written consent of the health care service contractor to which it
26 pertains unless the commissioner, after giving the health care service
27 contractor that would be affected by disclosure notice and a hearing
28 under chapter 48.04 RCW, determines that the interest of policyholders,
29 subscribers, shareholders, or the public will be served by the
30 publication, in which event the commissioner may publish all or any
31 part of the report in the manner he or she deems appropriate.

32 NEW SECTION. **Sec. 14.** No acquisitions or dispositions of assets
33 need be reported pursuant to section 13 of this act if the acquisitions
34 or dispositions are not material. For purposes of sections 13 through
35 18 of this act, a material acquisition, or the aggregate of any series
36 of related acquisitions during any thirty-day period; or disposition,
37 or the aggregate of any series of related dispositions during any

1 thirty-day period is an acquisition or disposition that is nonrecurring
2 and not in the ordinary course of business and involves more than five
3 percent of the reporting health care service contractor's total assets
4 as reported in its most recent statutory statement filed with the
5 commissioner.

6 NEW SECTION. **Sec. 15.** (1) Asset acquisitions subject to sections
7 13 through 18 of this act include every purchase, lease, exchange,
8 merger, consolidation, succession, or other acquisition other than the
9 construction or development of real property by or for the reporting
10 health care service contractor or the acquisition of materials for such
11 purpose.

12 (2) Asset dispositions subject to sections 13 through 18 of this
13 act include every sale, lease, exchange, merger, consolidation,
14 mortgage, hypothecation, abandonment, destruction, other disposition,
15 or assignment, whether for the benefit of creditors or otherwise.

16 NEW SECTION. **Sec. 16.** The following information is required to be
17 disclosed in any report of a material acquisition or disposition of
18 assets:

- 19 (1) Date of the transaction;
- 20 (2) Manner of acquisition or disposition;
- 21 (3) Description of the assets involved;
- 22 (4) Nature and amount of the consideration given or received;
- 23 (5) Purpose of or reason for the transaction;
- 24 (6) Manner by which the amount of consideration was determined;
- 25 (7) Gain or loss recognized or realized as a result of the
26 transaction; and
- 27 (8) Names of the persons from whom the assets were acquired or to
28 whom they were disposed.

29 NEW SECTION. **Sec. 17.** (1) No nonrenewals, cancellations, or
30 revisions of ceded reinsurance agreements need be reported under
31 section 13 of this act if the nonrenewals, cancellations, or revisions
32 are not material. For purposes of sections 13 through 18 of this act,
33 a material nonrenewal, cancellation, or revision is one that affects:

- 34 (a) More than fifty percent of a health care service contractor's
35 total reserve credit taken for business ceded, on an annualized basis,

1 as indicated in the health care service contractor's most recent annual
2 statement;

3 (b) More than ten percent of a health care service contractor's
4 total cession when it is replaced by one or more unauthorized
5 reinsurers; or

6 (c) Previously established collateral requirements, when they have
7 been reduced or waived as respects one or more unauthorized reinsurers
8 representing collectively more than ten percent of a total cession.

9 (2) However, a filing is not required if a health care service
10 contractor's total reserve credit taken for business ceded represents,
11 on an annualized basis, less than ten percent of the statutory reserve
12 requirement prior to any cession.

13 NEW SECTION. **Sec. 18.** The following is required to be disclosed
14 in any report of a material nonrenewal, cancellation, or revision of
15 ceded reinsurance agreements:

16 (1) The effective date of the nonrenewal, cancellation, or
17 revision;

18 (2) The description of the transaction with an identification of
19 the initiator;

20 (3) The purpose of or reason for the transaction; and

21 (4) If applicable, the identity of the replacement reinsurers.

22 NEW SECTION. **Sec. 19.** (1) Every health maintenance organization
23 domiciled in this state shall file a report with the commissioner
24 disclosing material acquisitions and dispositions of assets or material
25 nonrenewals, cancellations, or revisions of ceded reinsurance
26 agreements unless these acquisitions and dispositions of assets or
27 material nonrenewals, cancellations, or revisions of ceded reinsurance
28 agreements have been submitted to the commissioner for review,
29 approval, or information purposes under other provisions of this title
30 or other requirements.

31 (2) The report required in subsection (1) of this section is due
32 within fifteen days after the end of the calendar month in which any of
33 the transactions occur.

34 (3) One complete copy of the report, including any exhibits or
35 other attachments filed as part of the report, shall be filed with the:

36 (a) Commissioner; and

37 (b) National association of insurance commissioners.

1 (4) All reports obtained by or disclosed to the commissioner under
2 this section and sections 20 through 24 of this act are exempt from
3 public inspection and copying and shall not be subject to subpoena.
4 These reports shall not be made public by the commissioner, the
5 national association of insurance commissioners, or any other person,
6 except to insurance departments of other states, without the prior
7 written consent of the health maintenance organization to which it
8 pertains unless the commissioner, after giving the health maintenance
9 organization that would be affected by disclosure notice and a hearing
10 under chapter 48.04 RCW, determines that the interest of policyholders,
11 subscribers, shareholders, or the public will be served by the
12 publication, in which event the commissioner may publish all or any
13 part of the report in the manner he or she deems appropriate.

14 NEW SECTION. **Sec. 20.** No acquisitions or dispositions of assets
15 need be reported pursuant to section 19 of this act if the acquisitions
16 or dispositions are not material. For purposes of sections 19 through
17 24 of this act, a material acquisition, or the aggregate of any series
18 of related acquisitions during any thirty-day period; or disposition,
19 or the aggregate of any series of related dispositions during any
20 thirty-day period is an acquisition or disposition that is nonrecurring
21 and not in the ordinary course of business and involves more than five
22 percent of the reporting health maintenance organization's total assets
23 as reported in its most recent statutory statement filed with the
24 commissioner.

25 NEW SECTION. **Sec. 21.** (1) Asset acquisitions subject to sections
26 19 through 24 of this act include every purchase, lease, exchange,
27 merger, consolidation, succession, or other acquisition other than the
28 construction or development of real property by or for the reporting
29 health maintenance organization or the acquisition of materials for
30 such purpose.

31 (2) Asset dispositions subject to sections 19 through 24 of this
32 act include every sale, lease, exchange, merger, consolidation,
33 mortgage, hypothecation, abandonment, destruction, other disposition,
34 or assignment, whether for the benefit of creditors or otherwise.

1 NEW SECTION. **Sec. 22.** The following information is required to be
2 disclosed in any report of a material acquisition or disposition of
3 assets:

4 (1) Date of the transaction;

5 (2) Manner of acquisition or disposition;

6 (3) Description of the assets involved;

7 (4) Nature and amount of the consideration given or received;

8 (5) Purpose of or reason for the transaction;

9 (6) Manner by which the amount of consideration was determined;

10 (7) Gain or loss recognized or realized as a result of the
11 transaction; and

12 (8) Names of the persons from whom the assets were acquired or to
13 whom they were disposed.

14 NEW SECTION. **Sec. 23.** (1) No nonrenewals, cancellations, or
15 revisions of ceded reinsurance agreements need be reported under
16 section 19 of this act if the nonrenewals, cancellations, or revisions
17 are not material. For purposes of sections 19 through 24 of this act,
18 a material nonrenewal, cancellation, or revision is one that affects:

19 (a) More than fifty percent of a health maintenance organization's
20 total reserve credit taken for business ceded, on an annualized basis,
21 as indicated in the health maintenance organization's most recent
22 annual statement;

23 (b) More than ten percent of a health maintenance organization's
24 total cession when it is replaced by one or more unauthorized
25 reinsurers; or

26 (c) Previously established collateral requirements, when they have
27 been reduced or waived as respects one or more unauthorized reinsurers
28 representing collectively more than ten percent of a total cession.

29 (2) However, a filing is not required if a health maintenance
30 organization's total reserve credit taken for business ceded
31 represents, on an annualized basis, less than ten percent of the
32 statutory reserve requirement prior to any cession.

33 NEW SECTION. **Sec. 24.** The following is required to be disclosed
34 in any report of a material nonrenewal, cancellation, or revision of
35 ceded reinsurance agreements:

36 (1) The effective date of the nonrenewal, cancellation or revision;

- 1 (2) The description of the transaction with an identification of
2 the initiator;
3 (3) The purpose of or reason for the transaction; and
4 (4) If applicable, the identity of the replacement reinsurers.

5 NEW SECTION. **Sec. 25.** A new section is added to chapter 42.17 RCW
6 to read as follows:

7 Information provided under sections 1 through 24 of this act is
8 exempt from disclosure under this chapter.

9 NEW SECTION. **Sec. 26.** Sections 1 through 6 of this act are each
10 added to chapter 48.05 RCW.

11 NEW SECTION. **Sec. 27.** Sections 7 through 12 of this act are each
12 added to chapter 48.43 RCW.

13 NEW SECTION. **Sec. 28.** Sections 13 through 18 of this act are each
14 added to chapter 48.44 RCW.

15 NEW SECTION. **Sec. 29.** Sections 19 through 24 of this act are each
16 added to chapter 48.46 RCW.

Passed the Senate March 10, 1995.

Passed the House April 6, 1995.

Approved by the Governor April 18, 1995.

Filed in Office of Secretary of State April 18, 1995.

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