

SENATE BILL REPORT

SB 5262

As Reported By Senate Committee On:
Financial Institutions & Insurance, January 31, 2007

Title: An act relating to the capital and surplus requirements necessary to transact insurance.

Brief Description: Establishing certain capital and surplus requirements necessary to transact insurance.

Sponsors: Senators Franklin, Hobbs, Berkey and Hatfield; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/24/07, 1/31/07 [DP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Benton, Ranking Minority Member; Franklin, Hatfield, Parlette and Schoesler.

Staff: Diane Smith (786-7410)

Background: The Insurance Commissioner (Commissioner) is authorized to regulate all insurance business in Washington, including determinations of authority to transact all kinds of insurance. One of the requirements to initially qualify for authority to transact insurance is that the insurer maintain in its possession certain unimpaired levels of paid-in capital stock or basic surplus, plus additional surplus. These levels must be maintained after the insurer initially qualifies for authority to transact the given kind of insurance.

Paid-in capital stock requirements apply to an insurance company organized as a stock company. This is a for-profit company that generates its initial capital by selling stock to investors.

Basic surplus requirements apply to mutual insurance companies. These are corporations owned by their policyholders. What would be profit distributed as dividends to the shareholders of a stock company, is returned as dividends to the policyholders of a mutual company, reducing premium payments. Basic surplus for the mutual insurance company is the excess of its assets over its liabilities.

Ocean marine and foreign trade insurances are insurances of vessels; marine builders' risks, marine war risks, and indemnity; freights; and personal property as it is imported or exported,

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including coastwise, by land, water or air for all risks or perils of navigation, transit or transportation and during preparation for and while awaiting, shipment.

Summary of Bill: The date on which the initial capital and surplus requirements apply is clarified to be when the insurer initially qualifies for authority to transact the various kinds of insurance.

The ocean marine and foreign trade kinds of insurances are included as kinds of insurance for purposes of the initial capital and surplus requirements.

It is clarified for domestic insurers that the capital and surplus requirements apply immediately upon acquisition or merger and that once attained, the capital and surplus requirements may not return to previous June 9, 1994, levels.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This bill is a technical fix to close a loophole: it eliminates the grandfathering of capital and surplus requirements for domestic insurers; and clarifies the requirements for ocean marine insurance.

Persons Testifying: PRO: Jim Odiorne, Office of the Insurance Commissioner.