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**Business & Financial Services Committee**

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**HB 1077**

**Brief Description:** Regulating credit for reinsurance.

**Sponsors:** Representatives Kirby, Ryu, McBride and Stanford; by request of Insurance Commissioner.

**Brief Summary of Bill**

- Modifies the circumstances under which insurers are allowed credit for reinsurance.

**Hearing Date:** 1/21/15

**Staff:** Linda Merelle (786-7092).

**Background:**

*Credit for Reinsurance.*

Reinsurance is an insurance product purchased by an insurance company to pass some of the risk assumed by the insurance company to the reinsurer. The insurer that transfers the risk to the reinsurer is the "ceding" company. The reinsurer, or the "assuming" company, accepts the risk. Credit for reinsurance is an accounting procedure that permits a ceding company to treat amounts due from reinsurers as assets or reductions from liability. The ceding insurance company's exposure to financial loss is thereby reduced. This improves the reported financial condition of the ceding insurance company in its annual statement. Credit for reinsurance is allowed only when specified standards are met.

*Types of Insurers.*

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

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Summary of Bill:**

This bill implements the model law of the National Association of Insurance Commissioner's (NAIC) which modifies the circumstances under which credit for reinsurance is allowed. The provisions are codified in a subchapter of RCW 48.12 entitled "Credit for Reinsurance."

### *Managing Reinsurance Coverage.*

A ceding insurer must take steps to manage its reinsurance proportionate to its own risk, and it must take steps to diversify its reinsurance program.

### *Licensed in Washington Insurer or Reinsurer.*

Credit for reinsurance (credit) is allowed when the reinsurance ceded to an assuming insurer that is licensed to transact insurance or reinsurance in Washington.

### *Accredited in Washington as Reinsurer.*

Credit is allowed if the reinsurer: files with the Office of the Insurance Commissioner (Commissioner) evidence a reinsurer is accredited in Washington as a reinsurer and if there is evidence of its submission to Washington's jurisdiction and to the state's authority to examine its books and records; is licensed to transact insurance or reinsurance in at least one state; files annually with the Commissioner a copy of its annual statement and a copy of its most recent audited financial statement; and demonstrates that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers.

### *Domiciled in Other States.*

Credit is allowed if the reinsurer is domiciled in a state that employs standards substantially similar to those applicable under Washington law and the reinsurer: maintains a surplus regarding policy holders not less than \$20 million; and it submits to the Commissioner's authority to examine its books and records.

### *Trust Fund in Qualified Financial Institution.*

An insurer may apply credit if the reinsurer: maintains a trust fund in a "qualified United States financial institution," which is a financial institution that is organized under the laws of the United States; is regulated and supervised by federal or state authorities having regulatory authority over banks and trust companies; and has been determined by either the Commissioner or the Securities Valuation Office of the NAIC to meet the necessary standards of financial condition and standing.

The form of the trust must be approved by the commissioner of the state where the trust is domiciled or by a commissioner of another state who has accepted principal regulatory oversight of the trust, and it must meet certain conditions specified in the act.

### *Certified as Reinsurer.*

Credit is allowed when the reinsurer has been certified by the Commissioner as a reinsurer. In order to be eligible for certification, the reinsurer must: be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction; maintain minimum capital and surplus in an amount to be determined by the Commissioner pursuant to his or her rulemaking authority; agree to submit to Washington's jurisdiction and to meet applicable information filing requirements; and satisfy any other requirements deemed relevant by the Commissioner. An association including incorporated and individual unincorporated underwriters may be certified as a reinsurer if it meets certain additional requirements set out in statute.

The Commissioner must create and publish a list of qualified jurisdictions, under which a reinsurer would be eligible to be considered for certification. The Commissioner has the discretion to suspend a reinsurer's certification if the jurisdiction where the insurer is domiciled ceases to be a qualified jurisdiction.

#### *Revocation or Suspension.*

Under certain conditions, the Commissioner may suspend or revoke a reinsurer's accreditation or certification if it ceases to meet the necessary requirements. The Commissioner must give the reinsurer notice and an opportunity for a hearing.

#### *Required Reinsurance.*

Credit may be allowed even when: the reinsurer is not licensed or accredited in Washington; is domiciled in another state but does not meet the surplus requirements; does not meet the trust fund requirements; or is not certified as a reinsurer, if the reinsurance risk is located in a jurisdiction where reinsurance is required by law.

#### *Submission of Jurisdiction.*

If the reinsurer is not licensed, accredited, or certified to transact insurance or reinsurance in Washington, credit for reinsurance may be permitted if: there are provisions in the reinsurance agreements that provide that the reinsurer must submit to the jurisdiction of any court of competent jurisdiction in the United States; will comply with all requirements to confer jurisdiction on the court; and abide by the final decision of the court or any appellate court. In addition, the reinsurer must designate the Commissioner its attorney who may accept service of process.

#### *Rulemaking.*

The Commissioner may adopt rules and regulations implementing the provisions of this act.

#### *Repealed Provisions.*

Certain provisions of RCW chapter 48.12 are repealed, and certain provisions are recodified into the new sections in chapter 48.12 under this act.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.