

HOUSE BILL REPORT

HB 1077

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to credit for reinsurance.

Brief Description: Regulating credit for reinsurance.

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

Brief History:

Committee Activity:

Business & Financial Services: 1/21/15, 1/27/15 [DP].

Brief Summary of Bill

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

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Ryu, Vice Chair; Vick, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Blake, G. Hunt, Hurst, Kochmar, McCabe, Santos and Stanford.

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

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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.

Summary of Bill:

This bill implements the model law of the National Association of Insurance Commissioners (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 as an Insurer or Reinsurer.

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

Accredited in Washington as a Reinsurer.

Credit is allowed if the reinsurer: files with the Office of the Insurance Commissioner (Commissioner) evidence that it 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 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 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 a 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 place itself within the jurisdiction of the court; and will abide by the final decision of the court or any

appellate court. In addition, the reinsurer must designate the Commissioner as 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.

Staff Summary of Public Testimony:

(In support) Under this bill, the options for reinsurance are expanded. This is a way to authorize previously unauthorized reinsurers to become certified reinsurers. It will also allow reduced reinsurance collateral requirements, while still requiring insurers to prove that they have collateral to support claims. It is important to expand the pool of insurers that are able and willing to provide reinsurance, and this bill will allow reinsurance to be handled on a global basis. Collateral for reinsurance is not required in Europe and other countries outside of the United States. Without this bill, reinsurance companies would have to put up more collateral. Not requiring the additional collateral would increase the capacity for reinsurance. Approximately 25 states have already adopted this model, and other states are considering it this year.

(Opposed) None.

Persons Testifying: Lonnie Johns-Brown, Office of the Insurance Commissioner; and Michael Stern, Ace Group.

Persons Signed In To Testify But Not Testifying: None.