

# HOUSE BILL REPORT

## HB 2490

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### As Passed Legislature

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

**Brief Description:** Providing for credit for reinsurance of trust fund maintained that meets national association of insurance commissioners standards.

**Sponsors:** Representatives L. Thomas, Dyer, Grant and Kessler.

**Brief History:**

**Committee Activity:**

Financial Institutions & Insurance: 1/18/96, 1/25/96 [DP].

**Floor Activity:**

Passed House: 2/6/96, 95-2.

Senate Amended.

Conference Committee Report Adopted.

Passed Legislature.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 13 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Benton; Campbell; Dellwo; Dyer; Grant; Huff; Kessler; Pelesky and D. Sommers.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Scheurman, Assistant Ranking Minority Member; and Keiser.

**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 Washington State, 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); or (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.

Insurance company liabilities are somewhat unique, generally different than the traditional concept of liabilities on financial statements. Insurer liabilities typically are a portion of the unearned premiums, unpaid losses and loss adjustment expenses, policy reserves, and claims reserves, depending on the type of insurer.

**Summary of Bill:** After January 1, 1997, credit for reinsurance provided by a reinsurer not authorized to do business in Washington also may be taken by an insurance company if the reinsurer maintains a trust fund in the United States to cover liabilities attributable to business in the United States plus \$20 million. The bank in which the trust fund is established must meet the standards of the National Association of Insurance Commissioners. The Insurance Commissioner must conduct a study and adopt rules regarding safely administering the new reinsurance authorization.

**Appropriation:** None.

**Fiscal Note:** Requested on January 16, 1996.

**Effective Date:** Section 1 takes effect January 1, 1997; Sections 2 and 3 take effect immediately.

**Testimony For:** Many large, reputable reinsurers are based in other countries. This bill will make it easier for these companies to provide reinsurance for Washington insurance companies. The trust fund provisions, which contain a \$20 million cushion, are sufficient collateral for the reinsurance credits.

**Testimony Against:** Current collateral requirements protecting the reinsurance credit would be weakened by this bill. The inability to verify the financial condition of the

reinsurer or the reserves placed in the trust raise serious concerns regarding the safety of the reinsurance.

**Testified:** Mel Sorensen and Bill Marcoux, National Association of Independent Insurers and LeBoeuf, Lamb, and Greene (pro); Lincoln Ferris, Eagle Insurance Group (pro); and John Woodall, Office of the Insurance Commissioner (con).