

HOUSE BILL REPORT

HB 2370

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to reinsurance and surplus lines of insurance involving incorporated entities.

Brief Description: Extending reinsurance and surplus line insurance statutes to incorporated entities.

Sponsors: Representatives Zellinsky and Dyer.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, January 20, 1994,
DPS.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke, Ranking Minority Member; Anderson; R. Johnson; Kessler; Kremen; Lemmon; R. Meyers; Schmidt; Tate; and L. Thomas.

Staff: Charlie Gavigan (786-7340).

Background: Reinsurance is an insurance product purchased by an insurance company to pass some of the risk assumed by the insurance company onto the reinsurer. Since 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. However, these statutory provisions permit such a credit only when specified standards are met, standards which are designed to ensure the financial soundness of the reinsurance. One of these standards allows credit when the reinsurer is not licensed to transact business in Washington State but is a group of unincorporated underwriters that maintains a trust fund in an amount equal to the liabilities attributed to its business in the United States plus \$100 million.

Surplus line is an insurance product that provides coverage for risks that do not fit normal underwriting patterns, that are not commensurate with standard rates, or that will not

be covered by standard carriers. State law requires brokers to place surplus line insurance with insurers that are sound financially and precludes, among other things, insuring through an unincorporated group of individual insurers not licensed to do business in Washington unless this group maintains a trust fund of at least \$50 million and meets other statutory requirements.

Summary of Substitute Bill: A group of insurance underwriters that includes both incorporated and unincorporated members and is not licensed to do business in Washington can provide reinsurance if it meets certain statutory requirements. The incorporated members of the group only can engage in the business of underwriting, and must comply with the group's solvency requirements for unincorporated members.

A group of insurance underwriters that includes both incorporated and unincorporated members and is not licensed to do business in Washington can provide surplus line insurance if it meets certain statutory requirements.

Substitute Bill Compared to Original Bill: The substitute bill removes a provision that would have reduced existing statutory requirements allowing surplus line insurers that are not licensed to do business in Washington. The substitute bill also adds an emergency clause.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: Lloyd's of London provides important services to the insurance industry in Washington State through reinsurance (which improves the solvency of Washington companies) and surplus line insurance policies (which provides insurance coverage not provided by standard carriers). Lloyd's of London now is accepting incorporated members in addition to its traditional unincorporated members. This bill makes the necessary change in state law to account for the addition of incorporated members. The existing safeguards for state policyholders, including trust funds, are not changed.

Testimony Against: None.

Witnesses: Mel Sorensen, Lloyd's of London; William Marcout, Lloyd's of London; and John Woodall, Office of the Insurance Commissioner.