

FINAL BILL REPORT

SHB 2370

C 86 L 94
Synopsis as Enacted

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

By House Committee on Financial Institutions & Insurance
(originally sponsored by Representatives Zellinsky and Dyer).

House Committee on Financial Institutions & Insurance
Senate Committee on Labor & Commerce

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

Votes on Final Passage:

House	91	0
Senate	47	0

Effective: March 23, 1994.