

SENATE BILL REPORT

SB 5191

AS REPORTED BY COMMITTEE ON LABOR & COMMERCE,
FEBRUARY 11, 1993

Brief Description: Regulating impaired or insolvent life and disability insurers.

SPONSORS: Senators Moore and Prentice

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: That Substitute Senate Bill No. 5191 be substituted therefor, and the substitute bill do pass.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Fraser, McAuliffe, Newhouse, Pelz, Prince, Sutherland, Vognild, and Wojahn.

Staff: Benson Porter (786-7470)

Hearing Dates: January 19, 1993; January 25, 1993; February 11, 1993

BACKGROUND:

In 1971, the Washington Life and Disability Insurance Guaranty Association (WLDIGA) was created to ensure the performance of contractual obligations to this state's residents by life and disability insurers that became insolvent. Every life and disability insurer authorized to transact business in this state is required to be a member of the association.

When a life or disability insurer is liquidated, the association assesses the other member insurers to pay claims of the liquidated company. The assessments are based upon the proportion of premiums each member has received from business in this state. The actual trigger date upon which the association assumes or guarantees the performance of contractual obligations is the date that an order of liquidation is entered against the insolvent insurer. The WLDIGA may not assume or guarantee any policies or contracts prior to this order.

In addition to the mandatory trigger date, approximately 45 states authorize a voluntary trigger date upon which their guaranty associations may be activated. Many of these voluntary trigger dates occur when an insurer becomes impaired but is not yet liquidated. Interest has been expressed in providing a voluntary trigger mechanism to the WLDIGA to allow payments on policies or contracts that an impaired insurer cannot meet.

SUMMARY:

The Washington Life and Disability Insurance Guaranty Association (WLDIGA) may assume or guarantee the performance of contractual obligations of an impaired life or disability insurer. An insurer is impaired if: (1) the Insurance Commissioner deems that an insurer is potentially unable to fulfill its contractual obligations, or (2) the insurer is placed under an order of rehabilitation or conservation.

EFFECT OF PROPOSED SUBSTITUTE:

The language authorizing the commissioner to deem an insurer as impaired is deleted.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR:

A discretionary trigger date for the WLDIGA would permit earlier activation of the guarantee association to protect Washington citizens from delayed payouts.

TESTIMONY AGAINST:

There should be a court determination before the guaranty fund is activated. The discretionary authority of the commissioner to deem an insurer as impaired is too subjective.

TESTIFIED: John Woodall, Insurance Commissioner's Office (pro);
Basil Badley, HIAA and ACLI