
HOUSE BILL 1588

State of Washington 53rd Legislature 1993 Regular Session

By Representatives Scott, Mielke, Kremen, Brumsickle, Grant, Kessler
and Tate

Read first time 02/03/93. Referred to Committee on Financial
Institutions & Insurance.

1 AN ACT Relating to insurance contracts; and amending RCW 48.18.110.

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

3 **Sec. 1.** RCW 48.18.110 and 1985 c 264 s 9 are each amended to read
4 as follows:

5 (1) The commissioner shall disapprove any such form of policy,
6 application, rider, or endorsement, or withdraw any previous approval
7 thereof, only:

8 (a) If it is in any respect in violation of or does not comply with
9 this code or any applicable order or regulation of the commissioner
10 issued pursuant to the code; or

11 (b) If it does not comply with any controlling filing theretofore
12 made and approved; or

13 (c) If it contains or incorporates by reference any inconsistent,
14 ambiguous or misleading clauses, or exceptions and conditions which
15 unreasonably or deceptively affect the risk purported to be assumed in
16 the general coverage of the contract; or

17 (d) If it has any title, heading, or other indication of its
18 provisions which is misleading; or

1 (e) If purchase of insurance thereunder is being solicited by
2 deceptive advertising.

3 (2) In addition to the grounds for disapproval of any such form as
4 provided in subsection (1) of this section, the commissioner may
5 disapprove any form of disability insurance policy if the benefits
6 provided therein are unreasonable in relation to the premium charged.
7 However, benefits provided by particular individual disability
8 insurance policy forms are reasonable in relation to the premium
9 charged if the insurer has filed a loss ratio guarantee with the
10 commissioner, and benefits will continue to be reasonable in relation
11 to the premium so long as the insurer complies with the terms of the
12 loss ratio guarantee. This loss ratio guarantee shall be in writing,
13 shall be signed by an officer of the insurer, and shall contain at
14 least the following:

15 (a) A recitation of the anticipated lifetime and durational loss
16 ratios standards contained in the original actuarial memorandum filed
17 with the policy form when it was originally approved;

18 (b) A guarantee that the actuarial Washington loss ratio for the
19 experience period in which the new rates take effect, and for each
20 experience period thereafter until new rates are filed, shall meet or
21 exceed the loss ratio standards referred to in (a) of this subsection.
22 If the annual earned premium volume in Washington under the particular
23 policy form is less than one million dollars and therefore not
24 actuarially credible, the loss ratio guarantee must be based on the
25 loss ratio for the policy form in all states, but excluding any state
26 with respect to which all of the following conditions are met:

27 (i) The state has in effect a statute, rule, or regulation that
28 would permit the insurer to use rates on the policy form upon the
29 filing of a loss ratio guarantee and that provides minimum standards
30 for actuarial credibility;

31 (ii) The insurer has filed a loss ratio guarantee on the policy
32 form in the state that meets the requirements of the state and that
33 covers the experience period in question; and

34 (iii) The minimum standards for actuarial credibility in the state
35 for the policy form have been met for the experience period in
36 question.

37 If the aggregate earned premium for all included states is less than
38 one million dollars, the experience period shall be extended until the

1 end of the calendar year in which one million dollars of earned premium
2 is attained;

3 (c) A guarantee that the actual Washington, or national if
4 applicable, loss ratio results for the experience period at issue will
5 be independently audited at the insurer's expense. This audit shall be
6 completed in the second quarter of the year following the end of the
7 experience period and the audited results shall be reported to the
8 commissioner not later than June 30th, following the end of the
9 applicable experience period;

10 (d) A guarantee that affected Washington policyholders shall be
11 issued a proportional refund, based on premium earned, of the amount
12 necessary to bring the actual loss ratio up to the loss ratio standards
13 referred to in (a) of this subsection. If nation-wide loss ratios are
14 used, the total amount refunded in Washington will equal the dollar
15 amount necessary to achieve the loss ratio standards multiplied by the
16 total premium earned in Washington on the policy form and divided by
17 the total premium earned in all states on the policy form. The refund
18 must be made to all Washington policyholders who are insured under the
19 applicable policy form as of the last date of the experience period and
20 whose refund would equal ten dollars or more. The refund shall include
21 interest, at the then current accident and health reserve interest rate
22 established by the national association of insurance commissioners,
23 from the end of the experience period until the date of payment.
24 Payment shall be made during the third quarter of the year following
25 the experience period for which a refund is determined to be due; and

26 (e) A guarantee that refunds of less than ten dollars will be
27 aggregated by the insurer and paid to the commissioner.

28 (3) As used in this section, the term "loss ratio" means the ratio
29 of incurred claims to earned premiums by number of years of policy
30 duration, for all combined durations.

31 (4) As used in this section, the term "experience period" means for
32 any given rate filing for which a loss ratio guarantee is made, the
33 period beginning on the first day of the calendar year during which the
34 rates first take effect and ending on the last day of the calendar year
35 during which the insurer earns one million dollars in premium on the
36 form in question in Washington, or nationally, if the annual premium
37 earned on the form in Washington is less than one million dollars.

- 1 Successive experience periods shall be similarly determined beginning
- 2 on the first day following the end of the preceding experience period.

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