HOUSE BILL REPORT
HB 1592

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to credit against the premium tax for guaranty association assessments paid by insurers.

Brief Description: Crediting certain insurance premium taxes.

Sponsors: Representatives L. Thomas, Dellwo, Mielke and G. Fisher.

Brief History:
Committee Activity:
Financial Institutions & Insurance: 2/13/95, 2/23/95 [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 L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Campbell; Costa; Dellwo; Dyer; Huff; Kessler; Ogden and Pelesky.

Staff: Charlie Gavigan (786-7340).

Background: Insurance guaranty associations are statutorily created organizations comprised of all insurance companies authorized to write a particular type of insurance in that state. The associations typically are governed by a board of directors made up of representatives of the insurance industry, the state insurance regulator, and sometimes the general public. The associations are statutorily required to protect policyholders when an insurance company becomes insolvent or a court orders liquidation of the company. Generally, there are statutory limits on the amount of protection provided by insurance guaranty associations. Insurance guaranty associations assess member insurance companies after an insolvency occurs to raise funds to protect policyholders adversely affected by the insolvency. The assessment in any one year is limited by statute, usually 2 percent of premiums.

Washington has two insurance guaranty associations. The Washington Insurance Guaranty Association protects property and casualty policyholders. The Washington Life and Disability Insurance Guaranty Association protects life and disability insurance policyholders. When an insolvency or liquidation occurs, the member insurance companies of the affected guaranty association are assessed based on their percentage of Washington premiums; the assessment is limited to 2 percent of a member company's Washington premiums. An insurance company is exempt from paying assessments if the assessments would make the company insolvent.

In 1993, a tax credit for assessments paid to guaranty associations by member insurance companies was removed.

Summary of Substitute Bill: Insurance companies that pay an assessment to the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association receive a tax credit against premium taxes owed for 75 percent of the assessment. The tax credit must be taken over five years. The tax credit is prospective only; it applies to assessments that occur after the effective date of this act.

Substitute Bill Compared to Original Bill: The substitute bill reduces the tax credit to 75 percent of the assessment, rather than the total assessment, and makes the tax credits prospective only.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: Society as a whole, not the insurance industry alone, should protect policyholders when an insurance company becomes insolvent. When a company becomes insolvent, there has been a regulatory failure. Therefore, the cost of the insolvency should be spread among the general public through the tax credit, not fall on solvent insurance companies that did not cause the problem.

Testimony Against: The insurance industry, not taxpayers, should protect policyholders when a company becomes insolvent. If taxpayers rather than the industry pays for insurance insolvencies, there is less incentive for the industry to be prudent in its investments.

Testified: John Woodall, Office of the Insurance Commissioner (con); Mel Hathaway, Office of the Insurance Commissioner (con); Basil Badley, AIA, ACLI, HIAA (pro); Mel Sorensen, National Association of Independent Insurers (pro); and Mike Kapphahn, Farmers Insurance (pro).