HOUSE BILL REPORT
2ESHB 1592

As Passed Legislature

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: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives L. Thomas, Dellwo, Mielke and G. Fisher).

Brief History:
Committee Activity:
Financial Institutions & Insurance: 2/13/95, 2/23/95 [DPS];
Finance: 3/6/95 [DPS(FII)].
Floor Activity:
Passed House: 3/15/95, 76-21.
First Special Session
Floor Activity:
Passed House: 78-19.
Second Special Session
Floor Activity:
Passed House: 75-18.
Passed Senate: 34-13.

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).

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Financial Institutions & Insurance be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 2 members: Representatives Dickerson, Assistant Ranking Minority Member; and Mason.

Staff: Rick Peterson (786-7150).

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 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 the amount of the assessment. The tax credit must be taken over ten years. The tax credit is prospective only; it applies to assessments that occur after the effective date of this act.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: (Financial Institutions & Insurance) 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.

(Finance) The majority of states allow a tax credit or allow insurers to recoup guaranty assessments from policyholders. Washington took the tax credit away with the 1993 revenue package. This should be restored. The reasons for insurance company failure are usually either mismanagement or natural disaster. Solvent insurers cannot prevent mismanagement by other companies, nor natural disasters. These problems should be addressed by society as a whole.

Testimony Against: (Financial Institutions & Insurance) 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.

(Finance) It is more reasonable for the industry to pick up the costs of failed companies. The taxpayer should not have to pick up the tab for mismanagement. Recent insurance company failures would have resulted in major costs to the taxpayer. The Insurance Commissioner does not support this bill.

Testified: (Financial Institutions & Insurance) 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).

(Finance) Basil Badley, American Insurance Association, American Council of Life Insurance, and Health Insurance Association of America (pro); Mel Sorenson, National Association of Independent Insurers (pro); John Woodall and Mel Hathaway, Insurance Commissioner’s Office (con); and Mike Kapphahn, Farmers Insurance Group (pro).