FINAL BILL REPORT
SHB 1693

C 379 L 97
Synopsis as Enacted

Brief Description: Allowing credit for reinsured ceded risks.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives L. Thomas and Wolfe).

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Institutions, Insurance & Housing

Background: The Office of the Insurance Commissioner oversees the corporate and financial activities of insurance companies. All companies authorized to conduct insurance operations in Washington must meet statutory requirements for capital, surplus capital, reserves, investments, and other financial and operational considerations. Life, disability, and property and casualty insurers must also meet risk-based capital requirements.

Reinsurance is an insurance product purchased by an insurance company to pass some of the risk assumed by the insurance company onto the reinsurer. Because 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. This credit improves the reported financial condition of the insurance company obtaining the reinsurance. However, the statutory provisions permit such a credit for reinsurance only when specified standards are met, standards which are designed to ensure the financial soundness of the reinsurance.

When the reinsurer is not licensed to transact business in the state of Washington, the Washington insurer can still claim the reinsurance on its financial statement as long as certain statutory provisions are met: (1) the reinsurance is through Lloyds of London (which maintains a trust fund in the United States to cover liabilities attributable to business in the United States plus $100 million); (2) the credit equals the amount of funds or the amount of a letter of credit that is security for the insurer purchasing the reinsurance; or (3) the reinsurer maintains a trust fund in the United States to cover liabilities attributable to business in the United States plus $20 million.

A domestic insurance company is one organized under Washington law; an alien insurance company is one organized under the laws of a nation other than the United States; and a foreign insurance company is one organized under the laws of another state.

Summary: Reinsurance contracts entered into by Washington insurance companies must provide that in the event the insurance company becomes insolvent, the portion of the risk assumed by the reinsurer is payable to the conservator, liquidator, or successor. Payment under a reinsurance contract must be made within a reasonable time. An insurance company may count reinsurance as a financial credit only if the reinsurance involves an actual transfer of risk.

Alien reinsurers providing reinsurance to Washington insurance companies must register with the insurance commissioner and agree to abide by certain requirements regarding the trust account and meet certain reporting requirements. The insurance commissioner may revoke an alien reinsurer's registration for specified reasons, including an unsafe financial condition.

Foreign insurance companies are allowed credit for reinsurance, provided their home state is accredited by the National Association of Insurance Commissioners, or credit for the reinsurance would be allowed under Washington law if the insurance company were domiciled in Washington.

Votes on Final Passage:

House	97	0	
Senate	46	0	(Senate amended)
House	92	0	(House concurred)

Effective: July 27, 1997