

HOUSE BILL ANALYSIS

ON

HB 1693

Brief Description: *Allowing credit for reinsured cede risks.*

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 (this authority was enacted in 1996; the insurance commissioner is studying and adopting rules regarding safely administering the new reinsurance authorization).

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, that 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. Credit for reinsurance can only be taken if the reinsurance involves an actual transfer of risk.*

When a reinsurer that is domiciled outside the United States and is allowed to offer reinsurance in the United States based on a trust fund as financial security, the assets of the trust fund must be maintained in the United States and are distributed based on

the laws of the state in which the trust fund is domiciled.

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 can revoke an alien reinsurer's registration for specified reasons, including 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.

Fiscal Note: Not Requested.

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

Rulemaking: The Insurance Commissioner is granted rulemaking authority.