

HOUSE BILL REPORT

EHB 2549

As Passed House:

February 11, 1998

Title: An act relating to the risk-based capital of health carriers.

Brief Description: Establishing risk-based capital standards for health carriers.

Sponsors: Representatives L. Thomas, Wolfe and Thompson; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/22/98 [DP].

Floor Activity:

Passed House: 2/11/98, 95-0.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives L. Thomas, Chairman; Smith, Vice Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Benson; Constantine; DeBolt; Keiser; Sullivan and Wensman.

Staff: Charlie Gavigan (786-7340).

Background: There are three types of health carriers in Washington State: (1) disability insurers, which are traditional insurance companies that reimburse policyholders for covered health care expenses; (2) health care service contractors (HCSCs), which are organizations that provide health care services through a provider network to enrollees who have contracted with the HCSCs; and (3) health maintenance organizations, which are organizations that provide health care services to enrollees on a prepaid basis (generally monthly). All are regulated by statute and the Office of the Insurance Commissioner. An important regulatory responsibility of the commissioner is the solvency of insurance companies and health carriers.

The National Association of Insurance Commissioners (NAIC) is an association of state insurance agencies that attempts to coordinate the regulation of insurance. Insurance is regulated by the states rather than the federal government. One approach the NAIC uses to coordinate state regulation of insurance is to develop model laws.

Summary of Bill: A risk-based capital (RBC) program for health carriers is established to help regulate solvency. The RBC program is based on an NAIC model.

Every domestic health carrier annually must file an RBC report. This report must be filed with the Washington Insurance Commissioner, the NAIC, and with the insurance agency of any state where the insurance company is authorized to do business. The report provides RBC rating levels based on a formula and factors developed by the NAIC, and subject to change by the NAIC. The insurance commissioner can adjust the RBC report if the commissioner believes the report is inaccurate. The insurance commissioner can require that a foreign or alien insurer file an RBC report with the commissioner, and can take action if the home state regulator does not when required by the RBC program.

If a health carrier's level of capital is less than certain RBC standards based on NAIC formulas, the company must submit an RBC plan to the insurance commissioner that describes the problems and contains proposals to resolve them. Other corrective action may be required, depending on the severity of the capital deficiency based on RBC standards.

These provisions also apply to persons or entities that are similar to but not licensed as health carriers.

Appropriation: None.

Fiscal Note: Requested on January 20, 1998.

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

Testimony For: One of the most important jobs of the Office of the Insurance Commissioner is regulating the solvency of insurance companies and health carriers. Monitoring risk-based capital of health carriers based on formulas that have been agreed to nationally by regulators and the industry adds an important tool to monitoring company solvency and identifying problems early. Risk-based capital analysis provides flexibility in solvency regulation by considering differences between companies such as size.

Testimony Against: None.

Testified: John Woodall, Office of the Insurance Commissioner (supports); and Mel Sorensen, Washington Physicians Service (supports).