

HOUSE BILL REPORT

HB 1236

As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

Title: An act relating to the capital and surplus requirements necessary to transact insurance.

Brief Description: Establishing certain capital and surplus requirements necessary to transact insurance.

Sponsors: Representatives Roach, Kirby, Simpson and Moeller; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/23/07, 1/30/07 [DP].

Brief Summary of Bill

- Creates an ocean marine and foreign trade category of minimum capital and surplus requirements for insurers.
- Requires acquired or merged domestic insurers to meet the minimum capital and surplus requirement at the time of the completion of the acquisition or merger.
- Prevents domestic insurers that have reached the minimum levels of capital and surplus from returning to 1994 levels.

HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

Majority Report: Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Strow, Assistant Ranking Minority Member; Hurst, Rodne, Santos and Simpson.

Staff: Jon Hedegard (786-7127).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Insurance is regulated by the Office of the Insurance Commissioner (OIC). The OIC oversees the financial regulation of insurers. In order to be authorized to transact insurance in Washington, insurers must have a minimum amount of capital and surplus. Currently, there are 11 categories with capital and surplus requirements (this does not include health carriers which have net worth requirements). Each category has a required amount of paid-in capital stock or basic surplus and a requirement for additional surplus.

Line(s) of Insurance	Minimum Basic Surplus	Minimum Additional Surplus
Life	\$2,000,000	\$2,000,000
Disability	\$2,000,000	\$2,000,000
Life & Disability	\$2,400,000	\$2,400,000
Property	\$2,000,000	\$2,000,000
Marine & Transport	\$2,000,000	\$2,000,000
Vehicle	\$2,000,000	\$2,000,000
Surety	\$2,000,000	\$2,000,000
Title	\$2,000,000	\$2,000,000
General Casualty	\$2,400,000	\$2,400,000
A combination of any two of the following - Property, Marine & Transportation, General Casualty, Vehicle, Surety & Disability	\$3,000,000	\$3,000,000
Multiple lines - All lines excluding Life and Title	\$3,000,000	\$3,000,000

The standards were established in 1994. In the 1994 act, foreign or alien insurers were required to meet the minimum standards by December 31, 1996. Domestic insurers that were holding certificates of authority prior to the passage of the 1994 act were "grandfathered." They were allowed to continue to transact insurance if the domestic insurer continued to meet the standards for capital and surplus that were required prior to the 1994 act.

"Ocean marine and foreign trade insurance" is defined as including only:

- (1) "insurances upon vessels, crafts, hulls and of interests therein or with relation thereto;
- (2) insurance of marine builders' risks, marine war risks, and contracts of marine protection and indemnity insurance;

(3) insurance of freights and disbursements pertaining to a subject of insurance coming within this definition; and

(4) insurance of personal property and interests therein, in course of exportation from or importation into any country, or in course of transportation coastwise, including transportation by land, water or air from point of origin to final destination, in respect to, appertaining to, or in connection with, any and all risks or perils of navigation, transit or transportation, and while being prepared for and while awaiting shipment, and during any delays, storage, transshipment or reshipment incident thereto."

Summary of Bill:

- A minimum of \$2 million in basic surplus and \$2 million in additional surplus is required for insurers transacting ocean marine and foreign trade insurance.
- Ocean marine and foreign trade insurance is added to the list of insurances in the category which sets forth the amount of basic surplus and additional surplus for an insurer transacting two lines of insurance.
- Domestic insurers that are acquired or merged must meet the minimum capital and surplus requirement at the time of the completion of the acquisition or merger. Domestic insurers that have reached the minimum levels of capital and surplus may not return to 1994 levels.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is a technical bill. In 2005, a change to the law created a possible gap that could allow an insurer to transact insurance without appropriate capital and surplus. The bill creates capital and surplus standards of \$2 million in basic surplus and \$2 million in additional surplus. In 1947, ocean marine insurance was codified in chapter 48.14 RCW instead of chapter 48.11 RCW.

The bill also eliminates certain "grandfather" provisions regarding minimum surplus requirements. These types of provisions have existed over many years. They existed before the 1994 amendments. The last several insolvencies in this state involved insurers that were not required to meet the minimum surplus standards. The bill applies the minimum standards to domestic insurers at the time of merger or acquisition and requires any domestic insurer that has met the minimum standards to continue to meet those standards in the future. This is

an appropriate way to make sure that any domestic insurers that do not currently meet the minimum surplus standards transition to those minimum standards.

(Opposed) None.

Persons Testifying: Jim Odiorne, Office of the Insurance Commissioner.

Persons Signed In To Testify But Not Testifying: None.