FINAL BILL REPORT
HB 1308

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Synopsis as Enacted

Brief Description: Addressing surplus lines of insurance.

Sponsors: Representatives Vick, Kirby, Parker and Stanford.

House Committee on Business & Financial Services
Senate Committee on Financial Institutions & Insurance

Background:

Surplus Lines Insurance.

Generally, an insurance company may not engage in the business of insurance in the state unless the insurance company is authorized to do so by the Office of the Insurance Commissioner (OIC). "Surplus lines" insurance coverage is an exception. Surplus lines insurance is coverage that cannot be procured from authorized insurance companies. Often, surplus lines policies cover risks that do not fit normal underwriting patterns or do not fit standard insurance policies. Unlike insurance offered by an authorized insurer, surplus lines insurance is not subject to rate and policy form oversight.

If coverage cannot be purchased from an authorized insurer, the coverage may be purchased from an unauthorized insurer through a licensed surplus lines broker if: a diligent effort is made to find the coverage from authorized insurers; and the purpose for using an unauthorized insurer is something other than securing a lower premium rate than would be accepted by any authorized insurer.

The surplus lines broker must execute an affidavit setting forth the facts regarding the required diligent effort and the purpose for using an unauthorized insurer when insurance is purchased from an unauthorized insurer. The affidavit must be filed with the OIC within 30 days after the purchase of the insurance.

Licensing requirements regarding surplus lines brokers include background checks, including fingerprints; minimum bonding amounts; record-keeping; and reporting. Because a surplus lines insurer is not an authorized insurance company, the Washington Insurance Guaranty Association, which pays claims as a result of the insolvency of an authorized insurer, does not cover claims of insureds of a surplus lines insurer.

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.

Home State.

An insured's "home state," if the insured is a business, is the state where the insured maintains its headquarters. For an individual, it is his or her principal residence or, if all of the insured risk is located outside of Washington, the state to which the greatest percentage of the insured's taxable premium is allocated.

Surplus Lines Premium Tax.

A surplus lines broker must pay a tax of 2 percent on the premiums for surplus lines insurance transacted by the broker. The tax is credited to the General Fund. If a surplus lines policy covers risks or exposures that are only partially located in this state, the tax is computed upon the proportion of the risks or exposures located in this state.

For property and casualty insurance, if Washington is the insured's home state, the tax is computed upon the entire premium without regard to whether the policy covers risks or exposures that are located in this state. Risks located outside of the United States are not addressed. For all other lines of insurance, the tax is computed upon the proportion of the premium allocable to the risks or exposures located in Washington.

Summary:

The tax on the premiums for surplus lines property and casualty insurance must be computed upon the entire premium for covered risks or exposures within the United States or its territories. The tax must be computed upon the entire premium, regardless of whether the risks or exposures are located in Washington.

If the surplus lines insurance covers risks or exposures located outside of the United States and its territories, no tax is due or payable for the portion of the premium allocated for those risks and exposures.

Votes on Final Passage:

House	97	0
Senate	47	0

Effective: July 24, 2015