SENATE BILL REPORT
HB 1077

As of March 18, 2015

Title: An act relating to credit for reinsurance.

Brief Description: Regulating credit for reinsurance.

Sponsors: Representatives Kirby, Ryu, McBride and Stanford; by request of Insurance Commissioner.

Brief History: Passed House: 3/02/15, 97-0.
Committee Activity: Financial Institutions & Insurance: 3/18/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Susan Jones (786-7404)

Background: Insurance Regulation. The Office of the Insurance Commissioner (OIC) 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.

Credit for Reinsurance. Reinsurance is an insurance product purchased by an insurance company to pass some of the risk assumed by the insurance company to the reinsurer. The insurer that transfers the risk to the reinsurer is the "ceding" company. The reinsurer, or the "assuming" company, accepts the risk. Because the ceding company's exposure to financial loss is reduced by the purchase of reinsurance, statutory provisions allow the ceding company to take a credit for the reinsurance as an asset or as a deduction from liabilities. This credit improves the reported financial condition of the ceding company. However, credit for reinsurance is only allowed when specified standards are met, which are designed to ensure the financial soundness of the reinsurance.

Washington and Model Laws. In 1997 the Legislature last amended Washington law regarding credit for reinsurance. The National Association of Insurance Commissioners (NAIC) recently amended the Credit for Reinsurance Model Law to modernize reinsurance regulation in the U.S.

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.

Summary of Bill: The act implements provisions of the NAIC model law. Credit for reinsurance (credit) is allowed under the certain circumstances.

Licensed Reinsurer. Credit is allowed when the assuming insurer is licensed to transact insurance or reinsurance in Washington.

Accredited Reinsurer. Credit is allowed if the reinsurer is accredited by OIC by filing with OIC evidence of its submission to Washington's jurisdiction and the state's authority to examine its books and records; being licensed to transact insurance or reinsurance in at least one state; filing annually with OIC a copy of its annual statement and a copy of its most recent audited financial statement; and demonstrating that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers.

Reinsurer Domiciled in State With Similar Standards. Credit is allowed if the reinsurer is domiciled in a state that employs standards substantially similar to those applicable under Washington law and the reinsurer maintains a surplus regarding policyholders not less than $20 million and submits to OIC's authority to examine its books and records.

Reinsurer Maintains Trust Fund in Qualified Financial Institution. Credit is allowed if the reinsurer maintains a trust fund in a qualified U.S. financial institution. The assuming insurer must report annually to OIC and submit to examination of its books and records. The form of the trust must be approved by the commissioner of the state where the trust is domiciled or who has accepted principal regulatory oversight of the trust; and meet specified certain conditions. The trust remains in effect as long as the assuming insurer has outstanding obligations under the trust. Additional requirements are provided for categories with a single assuming insurer, a group including incorporated and individual unincorporated underwriters, and a group of incorporated underwriters.

Reinsurer Certified in Washington/Licensed in Qualified Jurisdiction. Credit is allowed when the reinsurer has been certified by OIC as a reinsurer. To be eligible for certification, the reinsurer must be domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction; maintain minimum capital and surplus in an amount to be determined by rule; maintain financial strength ratings from two or more rating agencies acceptable by rule; agree to submit to Washington's jurisdiction; meet applicable information filing requirements; and satisfy any other requirements deemed relevant by OIC. An association including incorporated and individual unincorporated underwriters may be certified as a reinsurer if it meets certain additional statutory requirements.

OIC must create and publish a list of qualified jurisdictions, under which a reinsurer would be eligible to be considered for certification. OIC has the discretion to suspend a reinsurer's certification if the domiciliary jurisdiction ceases to be qualified.

Out-of-State Reinsurance Risks. Credit may be allowed even when the reinsurer does not meet other requirements if the reinsurance risk is located in a jurisdiction where reinsurance is required by law.

By Agreement. If the reinsurer is not licensed, accredited, or certified to transact insurance or reinsurance in Washington, with respect to reinsurers domiciled in states with similar standards or meeting trust funds provisions, credit may only be allowed if the reinsurer agrees in the reinsurance agreement that it must submit to the jurisdiction of any court of competent jurisdiction in the United States at the request of the ceding insurer; will abide by the final decision of the court; and will designate OIC as its attorney who may accept service of process.

Suspension or Revocation. Under certain conditions, OIC may suspend or revoke a reinsurer's accreditation or certification if it ceases to meet the necessary requirements. OIC must give the reinsurer notice and an opportunity for a hearing.

Managing Reinsurance Coverage. A ceding insurer must take steps to manage its reinsurance proportionate to its own book of business and take steps to diversify its reinsurance program.

Miscellaneous. OIC may adopt rules and regulations implementing the provisions of this act. Some sections regarding credit for reinsurance are repealed and some are recodified. The act applies to all cessions after the effective date under reinsurance agreements that have an inception, anniversary, or renewal date not less than six months after the effective date.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This is a technical NAIC bill. The bill creates two new classes of reinsurers: accredited and certified. They must submit to the jurisdiction of this state. Certified reinsurers must provide collateral for their assumed U.S. liabilities. They can apply for a reduction of the collateral from their point of entry state or from an NAIC workgroup based on two or more rating agencies. This allows companies that have not been authorized in this state to have another avenue to obtain certification. The percentage reduction must be based on rule. Accredited and certified reinsurers must annually renew based on financial solvency and financial ratings. OIC will provide a list of registered reinsurers and their ratings. This is great public information. Domestic ceding insurers must report to OIC if their reinsurance recoverables or reinsurance programs exceed certain financial limits and risk exposures. This allows two new categories and the tools to go with it so they will have the correct oversight to make sure they are acting appropriately and are solvent.

Persons Testifying: PRO: Lonnie Johns-Brown, OIC.