

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER

*In the Matter of*

CYPRESS INSURANCE COMPANY,

Unauthorized Entity.

Order No. 18-0221

NOTICE OF INTENT TO  
COLLECT UNPAID PREMIUM  
TAXES

With this Notice of Intent to Seek Collection of Unpaid Premium Taxes ("Notice"), the Insurance Commissioner of the state of Washington ("Insurance Commissioner"), acting pursuant to the authority set forth in RCW 48.02.060, RCW 48.14.020, RCW 48.14.095, and RCW 48.15.120 provides notice that it intends to seek collection of unpaid premium taxes from Cypress Insurance Company for violating the insurance laws of Washington. This Notice is a public record and will be disseminated in accordance with Title 48 RCW and the Insurance Commissioner's policies and procedures.

**BASIS:**

1. Cypress Insurance Company ("Cypress") is an Arizona domiciled captive insurance company.
2. Cypress was admitted as a captive insurance company in Arizona on July 1, 2008.
3. Cypress is a pure captive insurance company, whose sole insured is the Microsoft Corporation family of companies (hereinafter "Microsoft Corporation"). More specifically, this includes any subsidiary of Microsoft Corporation, and Microsoft Corporation's interest in any partnership or joint venture associated or allied company, corporation, firm or organization in which Microsoft Corporation has management control or ownership as currently constituted or acquired in the future.
4. Microsoft Corporation maintains its principal place of business in Redmond, Washington.

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5. Microsoft Corporation's liabilities insured by Cypress are partially located in Washington State.

6. Cypress's board of directors is made up of five (5) individuals. Four (4) of the directors appear to be employees of Microsoft Corporation, whose principal place of business is Redmond, Washington.

7. Cypress has five (5) corporate officers. At least four (4) officers appear to be employees of Microsoft Corporation, whose principal place of business is Redmond, Washington.

8. For the policy year July 1, 2013 to July 1, 2014, Cypress received \$10,279,571 in annual premium from Microsoft Corporation for coverage of all risks to global property and for terrorism insurance.

9. For the policy year July 1, 2014 to July 1, 2015, Cypress received \$16,585,157 in annual premium from Microsoft Corporation for coverage of all risks to global property and for terrorism insurance.

10. For the policy year July 1, 2015 to July 1, 2016, Cypress received \$15,895,434 in annual premium from Microsoft Corporation for coverage of all risks to global property and for terrorism insurance.

11. For the policy year July 1, 2016 to July 1, 2017, Cypress received \$13,290,029 in annual premium from Microsoft Corporation for coverage of all risks to global property and for terrorism insurance.

12. For the policy year July 1, 2017 to July 1, 2018, Cypress received \$15,144,744 in annual premium from Microsoft Corporation for coverage of all risks to global property and for terrorism insurance.

13. Cypress has collected approximately \$71,194,935 in premium from Microsoft Corporation between 2013 and 2018.

14. Cypress does not hold a certificate of authority to transact insurance in Washington State.

15. Cypress does not hold a Washington State surplus line broker's license to place unauthorized insurance in this state, nor is insurance coverage provided by Cypress placed through a surplus line broker licensed in Washington State.

16. Cypress has not paid premium tax to the state of Washington for the years 2013, 2014, 2015, 2016, 2017, and 2018, while insuring Microsoft Corporation, representing approximately \$1,423,898.70 in unpaid premium tax to Washington State.

17. Approximately \$611,540.00 in interest and penalties would accrue based on the unpaid premium tax amount to date.

18. RCW 48.05.030(1) provides that no person shall act as an insurer and no insurer shall transact insurance in this state other than as authorized by a certificate of authority issued to it by the Insurance Commissioner and then in force; except, as to such transactions as are expressly otherwise provided for in this code.

19. RCW 48.14.020(1) provides that subject to other provisions of this chapter, each authorized insurer except title insurers shall on or before the first day of March of each year pay to the state treasurer through the Insurance Commissioner's office a tax on premiums. Except as provided in subsection (3) of this section, such tax shall be in the amount of two percent of all premiums, excluding amounts returned to or the amount of reductions in premiums allowed to holders of industrial life policies for payment of premiums directly to an office of the insurer, collected or received by the insurer under RCW 48.14.090 during the preceding calendar year other than ocean marine and foreign trade insurances, after deducting premiums paid to policyholders as returned premiums, upon risks or property resident, situated, or to be performed in this state. For tax purposes, the reporting of premiums shall be on a written basis or on a paid-for basis consistent with the basis required by the annual statement. For the purposes of this section the consideration received by an insurer for the granting of an annuity shall not be deemed to be a premium.

20. RCW 48.14.060 provides that any insurer failing to file its tax statement and to pay the specified tax or prepayment of tax on premiums and prepayments for health care services by the last day of the month in which the tax becomes due shall be assessed a penalty of five percent of the amount of the tax; and if the tax is not paid within forty-five days after the due date, the insurer will be assessed a total penalty of ten percent of the amount of the tax; and if the tax is not paid within sixty days of the due date, the insurer will be assessed a total penalty of twenty percent of the amount of the tax. The tax may be collected by distraint, and the penalty recovered by any

action instituted by the Insurance Commissioner in any court of competent jurisdiction. The amount of any penalty collected must be paid to the state treasurer and credited to the general fund.

21. Under RCW 48.14.095(1)-(2), any insurer violating or failing to comply with RCW 48.05.030(1), 48.17.060, 48.36A.290(1), 48.44.015(1), or 48.46.027(1) is subject to the effect of RCW 48.14.020, 48.14.0201, and 48.14.060.

22. RCW 48.14.095(5) provides that insurance on risks or property resident, situated, or to be performed in this state, or health coverage for the provision of health care services for residents of this state, is considered to be insurance procured, continued, renewed, or performed in this state, regardless of the location from which the application is made, the negotiations are conducted, or the premiums are remitted.

23. RCW 48.15.020(1) provides that an insurer that is not authorized by the Insurance Commissioner may not solicit insurance business in this state or transact insurance business in this state, except as provided in this chapter.

24. RCW 48.15.023(2) provides that for the purpose of this section, an act is committed in this state if it is committed, in whole or in part, in the state of Washington, or affects person or property within the state and relates to or involves an insurance contract.

25. RCW 48.17.060(1) provides that a person shall not sell, solicit, or negotiate insurance in this state for any line or lines of insurance unless the person is licensed for that line of authority in accordance with this chapter.

26. By transacting insurance in Washington State without holding a certificate of authority, placing unauthorized insurance with a Washington domiciled insured without holding a Washington State surplus line broker license, and failing to timely remit a two (2) percent premium tax to the state of Washington on premiums earned, Cypress violated RCW 48.05.030(1) (certificate of authority required), RCW 48.15.020(1) (solicitation by unauthorized insurer prohibited), RCW 48.17.060(1) (license required), RCW 48.14.020(1) (payment of two (2) percent premium tax), RCW 48.14.095(1)-(2), and RCW 48.14.060(1)-(2) (failing to timely remit premium tax payment), justifying the collection of unpaid premium tax and corresponding interest and penalties under RCW 48.14.020(1), RCW 48.14.060(1)-(2), RCW 48.14.095(1)-(2).

**NOTICE OF INTENT TO SEEK COLLECTION OF UNPAID PREMIUM TAXES:**

In accordance with RCW 48.14.095(1) and (2), RCW 48.15.020(1), and RCW 48.14.060(1)-(2), and based upon the above Notice Basis, the Insurance Commissioner intends to seek collection of unpaid premium tax in the amount of \$1,423,898.70 and \$611,540.00 in penalties and interest. If Cypress does not demand a hearing, as set forth below, the Insurance Commissioner will enter a Final Order that Cypress pay all appropriate taxes, penalties, and interest.

**NOTICE OF OPPORTUNITY FOR HEARING:**

Respondent has the right to demand a hearing in accordance with RCW 48.04.010, WAC 284-02-070, and WAC 10-08-110. This Order is also subject to the provisions of Chapter 34.05 RCW. A respondent has 90 days from receipt of this Order to demand a hearing. If the Insurance Commissioner does not receive a hearing demand from the Respondent within 90 days from the date the respondent received this Order, the respondent's right to a hearing is conclusively deemed to have been waived.

**THIS ORDER IS EFFECTIVE IMMEDIATELY AND IS ENTERED** at Tumwater, Washington, this 9<sup>th</sup> day of May, 2018.



MIKE KREIDLER  
Insurance Commissioner

By and through his designee



Ross Valore  
Insurance Enforcement Specialist  
Legal Affairs Division

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CERTIFICATE OF MAILING

The undersigned certifies under the penalty of perjury under the laws of the state of Washington that I am now and at all times herein mentioned, a citizen of the United States, a resident of the state of Washington, over the age of eighteen years, not a party to or interested in the above-entitled action, and competent to be a witness herein.

On the date given below I caused to be served the foregoing Notice of Intent to Collect Unpaid Premium Taxes on the following individual(s) by depositing in the U.S. mail via state Consolidated Mail Service with proper postage affixed to:

Corporation Service Company  
2338 West Royal Palm Road, Suite J  
Phoenix, AZ 85021  
*Statutory Agent for Cypress Insurance Company*

Cypress Insurance Company  
2929 North Central Avenue  
Phoenix, AZ 85012

Dated this 9<sup>th</sup> day of May, 2018, in Tumwater, Washington.

*Christine M. Tribe*  
Christine M. Tribe  
Paralegal  
Legal Affairs Division

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