

SENATE BILL REPORT

SB 6289

As Passed Senate, February 10, 1996

Title: An act relating to fraternal benefit societies.

Brief Description: Regulating fraternal benefit societies.

Sponsors: Senators Prentice, Fraser, Quigley and Pelz; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Housing: 1/11/96, 1/19/96 [DP].
Passed Senate, 2/10/96, 48-0.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Hale, Roach and Sutherland.

Staff: Katie Healy (786-7403)

Background: A fraternal benefit society is a not-for-profit organization conducted solely for the benefit of its members and beneficiaries, operates on a lodge system, has a representative form of government, and provides certain types of benefits. These include death, endowment, annuity, disability, medical, or life insurance benefits. A fraternal benefit society may be a domestic organization incorporated in Washington State, or a foreign or alien organization incorporated in another state and licensed in this state. At present, no domestic fraternal benefit societies exist in Washington.

Few solvency requirements are imposed on these fraternal benefit societies, although such solvency requirements are imposed on commercial insurance carriers. Concern has been expressed that Washington citizens may be at risk if these fraternal benefit societies become insolvent because they failed to carry an appropriate amount of unimpaired surplus to respond to claims.

Summary of Bill: A minimum amount of unimpaired surplus which a fraternal benefit society must maintain is established. The Insurance Commissioner may require that a fraternal benefit society maintain a larger amount of unimpaired surplus over the minimum requirement. A phase-in period is allowed for those societies that may not immediately meet the new requirements. A lodge system can continue to operate as a fraternal society, but cannot add new beneficiaries until it meets the new standards.

The commissioner may refuse, suspend or revoke a fraternal benefit society's license if the society is operating in a fashion hazardous to its beneficiaries. Due process standards are provided when the commissioner takes such action. Standards are delineated which the commissioner may consider in determining whether a society's continued operation might be deemed hazardous.

Risk-based capital standards currently in effect for commercial carriers are now applied to these societies. Factors are identified which the commissioner may consider when determining a society's financial condition. The commissioner is authorized to supervise the rehabilitation, liquidation or conservation of a domestic fraternal benefit society.

Certain technical revisions are made to the RCW chapter affecting fraternal benefit societies.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This bill will ensure that solvency requirements already imposed on commercial carriers will be applied to fraternal benefit societies. At present, no action can be taken against such a society until it becomes impaired. This bill is in the public interest, and will protect the public.

Testimony Against: None.

Testified: John Woodall, office of the Insurance Commissioner (pro).

House Amendment(s): Foreign or alien fraternal benefit societies may continue to issue policies to existing policyholders as of June 30, 1997, even if the societies do not meet the minimum unimpaired surplus requirements.