

# HOUSE BILL REPORT

## HB 1972

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*As Reported By House Committee on:  
Financial Institutions & Insurance*

**Title:** An act relating to insurance.

**Brief Description:** Allowing surrender charges and forfeiture charges when issuing an insurance policy.

**Sponsor(s):** Representatives Zellinsky, Mielke, Heavey, Day, Paris, Schmidt, Prince, Scott and Holland.

**Brief History:**

Reported by House Committee on:  
Financial Institutions & Insurance, March 6, 1991, DPS.

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**HOUSE COMMITTEE ON  
FINANCIAL INSTITUTIONS & INSURANCE**

**Majority Report:** *That Substitute House Bill No. 1972 be substituted therefor, and the substitute bill do pass.*  
Signed by 13 members: Representatives Dellwo, Chair; Zellinsky, Vice Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

**Staff:** John Conniff (786-7119).

**Background:** The insurance code prohibits the collection of any sum as premium that is not used to provide insurance. In addition, no person may fail to return to a policyholder money collected as premiums in excess of the amount actually expended for insurance.

Recently, the insurance commissioner used this law to deny a health insurance company's request for approval of a policy form which allowed the health insurer to maintain a separate account containing a portion of premium payments that would not be spent on insurance under certain circumstances. The commissioner's interpretation and application of the law has been appealed to the courts.

Certain life insurance policies and contracts contain provisions governing policyholder benefits upon surrender or forfeiture of the policy by the policyholder through nonpayment of premiums or election by the policyholder.

These provisions must conform to standards outlined in the insurance code including the Standard Nonforfeiture Law for Life Insurance.

**Summary of Substitute Bill:** Notwithstanding state law prohibiting the collection of any sum as premium unless used to provide insurance, insurance companies may issue life insurance policies and annuity contracts which provide for surrender charges, forfeiture charges, or similar charges provided such charges comply with insurance code provisions governing life insurance and annuities.

**Substitute Bill Compared to Original Bill:** A different section of the insurance code is amended and the provision permitting health insurers to issue policies containing surrender, forfeiture or similar charges is deleted.

**Fiscal Note:** Not requested.

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

**Testimony For:** (Original bill): The insurance commissioner's choice in using the insurance code provision prohibiting the collection of sums as insurance premium and not expended for insurance jeopardizes life insurance policies and annuity contracts that contain surrender, forfeiture and similar charges. Health insurers should not be prohibited from developing innovative policies containing provisions establishing a savings element to pay for policy deductibles and future premium increases simply because the policyholder may forfeit these benefits if the policyholder cancels the policy. If the insurance commissioner does not approve of the structure or pricing of such innovative policies, he has other grounds upon which to prohibit the sale of such policies.

**Testimony Against:** (Original bill): The insurance commissioner's ruling concerning a health insurance policy does not jeopardize life insurance policies and annuity contracts because such policies and contracts containing surrender, forfeiture, and similar charges are permitted under other insurance code provisions. No health insurer should be permitted to collect premiums for policies that will not be spent on health care benefits, particularly when such sums collected to benefit policyholders may be lost by the policyholder to the gain of the insurer. The cost of health insurance is high enough without allowing insurers to charge for benefits the policyholder may never see.

**Witnesses:** Basil Badley, American Casualty Life Insurance (Pro); Jean Leonard, State Farm Insurance (Pro); and Ed

Southon and Janis LaFlash, Office of Insurance Commissioner  
(Con).