

HOUSE BILL REPORT

SB 6377

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to compensation of insurance brokers.

Brief Description: Compensating insurance brokers.

Sponsors: Senator Moore.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, February 23, 1994,
DPA.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 14 members: Representatives Zellinsky, Chair; Scott, Vice Chair; Mielke, Ranking Minority Member; Dyer, Assistant Ranking Minority Member; Anderson; Dellwo; Dorn; R. Johnson; Kessler; Kremen; Lemmon; Schmidt; Tate and L. Thomas.

Staff: Charlie Gavigan (786-7340).

Background: An insurance agent is a person appointed by an insurance company to solicit insurance applications for insurance on its behalf. An insurance broker is an independent contractor who, on behalf of an insurance company and for compensation, solicits or negotiates insurance or reinsurance. A person can be both an agent and a broker.

There are several statutory provisions that define how compensation for procuring insurance can be paid by the person acquiring insurance. The premium stated in an insurance policy must include all charges for the procurement of insurance. Insurance companies, agents, brokers and others cannot provide the insured person with any inducement or rebate not specifically provided for in the insurance policy. A broker can receive a broker's fee where an insurer deals with brokers only, where the company's appointed agents are also brokers, and where disclosure is made to the insurance applicant.

Summary of Amended Bill: The statutory provision is repealed that authorizes a broker to receive a broker's fee

where an insurer deals with brokers only, where the company's appointed agents are also brokers, and where disclosure is made to the insurance applicant. Instead, a property and casualty insurance agent licensed as a broker may receive compensation in the form of commission paid by the insurer, a fee paid by the insured, or a combination of both. Where the broker receives both a commission and a fee, the broker may offset or reimburse the insured for all or part of the fee paid by the insured; this arrangement must be disclosed in writing, signed by both parties, and kept by the broker for at least five years.

The following provisions do not apply to compensation paid to an insurance agent licensed as a broker: (1) the premium stated in an insurance policy must include all charges for the procurement of insurance; and (2) insurance companies, agents, brokers and others cannot provide the insured person with any inducement or rebate not specifically provided for in the insurance policy.

Amended Bill Compared to Original Bill: The amendment clarifies that the compensation provisions apply to property and casualty insurance, that the agent also must be a broker dealing directly with the insurance applicant, and that an agency agreement between the agent and the insurer control compensation between the agent and insurer.

Fiscal Note: Not requested.

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

Testimony For: The bill clarifies that current practice by insurance brokers is permitted under insurance law.

Testimony Against: None.

Witnesses: Steve Wehrly, Western Association of Insurance Brokers (supports).