

SENATE BILL REPORT

SB 5764

AS OF FEBRUARY 22, 1993

Brief Description: Restricting termination of insurance agent's contracts.

SPONSORS: Senator Pelz

SENATE COMMITTEE ON LABOR & COMMERCE

Staff: Erika Lim (786-7488)

Hearing Dates: February 24, 1993

BACKGROUND:

Insurance agents enter into contracts with insurance companies to sell a company's policies. The contract defines the relationship between the agent and the company. An independent agent is an independent contractor and not an employee of the company, may represent more than one company, and is not obligated to place accounts with any particular insurance company.

Agents enter into agreements (policies) with customers on behalf of companies. When looked at as a whole, an agent's policies may have a high ratio of claims made to the amount of premiums earned. This is called the loss ratio experience. If a company feels an agent has too high a loss ratio experience, the company may terminate the agent's contract, condition acceptance of certain types of policies upon contemporaneous production of premiums from other types of insurance, reduce policy limits or eliminate policy forms available to the agent, or reduce commission.

SUMMARY:

Insurance companies are prohibited from terminating independent agents' written contracts to sell private passenger car or homeowner policies solely on the basis of the agent's loss ratio experience in those two types of policies. "Terminate" is defined as conditioning acceptance of private passenger car or homeowner policies upon contemporaneous production of premiums from other types of insurance, reducing policy limits or eliminating the availability of policy forms to the agent, or reducing commission.

Appropriation: none

Revenue: none

Fiscal Note: none requested