

HOUSE BILL REPORT

HB 1792

As Reported by House Committee On:

Financial Institutions & Insurance

Title: An act relating to the holding company act for health care service contractors and health maintenance organizations.

Brief Description: Creating the holding company act for health care service contractors and health maintenance organizations.

Sponsors: Representatives Benson and Hatfield; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/20/01, 2/27/01 [DPS].

Brief Summary of Substitute Bill

- A holding company act is created for health care service contractors and health maintenance organizations that is similar to the one for traditional insurance companies.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; Barlean, Cairnes, DeBolt, Keiser, Miloscia, Roach, Santos and Simpson.

Staff: Charlie Gavigan (786-7340).

Background:

The Insurer Holding Company Act requires that businesses obtain prior approval from the Office of the Insurance Commissioner in order to acquire a domestic insurance company. In order for the acquisition to be approved, the acquiring party must file certain information with the Office of the Insurance Commissioner. This information includes the business and financial history of the acquiring party; the source, nature, and amount of the acquisition price; and any plans that will result in a material change in the business

or corporate structure of the acquired company. The Insurance Commissioner must approve the proposed acquisition within 60 days of receiving a complete application, and after holding a public hearing on the proposed acquisition.

The Holding Company Act also requires that companies within a holding company system file a registration statement with the Office of the Insurance Commissioner. The registration statement includes detailed financial information about the insurance company; the identity and relationship of every member of the insurance holding company system; and material transactions between affiliates in the holding company system and the insurance company.

Every registered insurance company is also required to report to the Office of the Insurance Commissioner all dividends and other distributions to shareholders. The dividend report must be filed at least five business days after dividends are declared, and at least 15 business days before the company pays the dividend. After receiving the report, the commissioner makes a determination to verify the insurer's financial ability to declare the dividend. If the commissioner finds a company's surplus inadequate, the commissioner may order the company to stop payment of the dividend.

There are three types of health carriers in Washington State: (1) disability insurers, which are traditional insurance companies that reimburse policyholders for covered health care expenses; (2) health care service contractors (HCSCs), which are organizations that provide health care services through a provider network to enrollees who have contracted with the HCSCs; and (3) health maintenance organizations (HMOs), which are organizations that provide health care services to enrollees on a prepaid basis (generally monthly). All are regulated by the Office of the Insurance Commissioner (OIC) as provided in state law. The OIC does not apply the Insurance Holding Company Act to HCSCs or HMOs, only to traditional insurance companies.

Summary of Substitute Bill:

A holding company act for health care service contractors (HCSCs) and health maintenance organizations (HMOs) is established.

Any entity that desires to acquire an HCSC and an HMO created under the laws of another state and doing business in Washington must file a notice of pre-acquisition notification with the Office of Insurance Commissioner. The Insurance Commissioner determines the form and the information necessary for the pre-acquisition notification. The Insurance Commissioner approves or denies acquisitions based on standards and procedures created in the Holding Company Act.

Any entity that desires to acquire a domestic HCSC or an HMO must create a statement detailing the acquisition and send it to the Insurance Commissioner and the HCSC or

HMO to be acquired. The statement filed with the commissioner includes various items such as the financial backgrounds of the individuals or businesses filing the statement, the source of the finances needed for the acquisition, fully audited financial statements for the preceding five years, any plans for liquidating or selling the assets of the domestic HCSC or HMO, and information on investments and securities. The Insurance Commissioner must approve or deny the acquisition based on standards and procedures created in the Holding Company Act.

Every holding company system must keep its registration statement current. The HCSC and HMOs that do business in Washington, but are domiciled in another state, do not have to file annual registration statements if the state of domicile has similar registration requirements. The registration statement contains current financial information, outstanding agreements and contracts, transactions not in the ordinary course of business, and the identity and relationship of every member of the holding company system.

The Insurance Commissioner regulates transactions within the holding company system. The commissioner may seek court orders enjoining violations of the act, seek civil and criminal penalties, and suspend, revoke, or refuse to renew registration. The commissioner has the authority to make rules and issue orders under the act.

Substitute Bill Compared to Original Bill:

The substitute defines control differently for nonprofit and for-profit organizations. Transactions within the holding company system are subject to risk-based capital standards. The substitute changes standards that govern when carriers must disclose transactions within a holding company system to the commissioner. The substitute makes proprietary and trade secret information confidential and exempt from public disclosure. Several technical changes are made. Clarifying language is added in the definitions section.

Appropriation: None.

Fiscal Note: Not Requested.

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

Testimony For: States should have regulatory authority regarding the holding company activity of health maintenance organizations and health care contractors. This bill is similar to the existing holding company act for insurance companies. It will help protect against insolvencies, which are harmful to consumers in Washington State. We have been working on this bill for a number of years and support it with a few changes.

Testimony Against: None

Testified: (In support) Mike Kreidler, Insurance Commissioner.

(In support with amendment) Ken Bertrand, Group Health Cooperative, Rick Wickman, Premera Blue Cross; and Nancee Wildermuth, Regence Blue Shield and Pacific Care of Washington.