

HOUSE BILL REPORT

SSB 5793

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: By Senate Committee on Labor, Commerce & Financial Institutions (originally sponsored by Senators Thibaudeau, Deccio, Winsley and Prentice; by request of Insurance Commissioner).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 3/28/01 [DP].

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: 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: Thamas Osborn (786-7129).

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 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.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The bill is an important piece of consumer protection legislation. An act allowing for the regulation of holding companies for HMOs and HCSCs is much needed. Currently, most health insurance carriers are non-profits, and the bill is designed to address the characteristics of such companies. The bill is needed in order to regulate asset transfers with respect to holding companies that acquire health carriers. The bill is the result of a great deal of cooperation between the insurance industry and the Office of the Insurance Commissioner, and there is general agreement that the bill should be passed.

Testimony Against: None.

Testified: Bill Daley, Office of the Insurance Commissioner; and Senator Thibadeau, prime sponsor.