

# SENATE BILL REPORT

## SB 5793

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As Reported By Senate Committee On:  
Labor, Commerce & Financial Institutions, February 27, 2001

**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:** Senators Thibaudeau, Deccio, Winsley and Prentice; by request of Insurance Commissioner.

**Brief History:**

**Committee Activity:** Labor, Commerce & Financial Institutions: 2/19/01, 2/27/01 [DPS].

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### SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

**Majority Report:** That Substitute Senate Bill No. 5793 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Gardner, Vice Chair; Benton, Fairley, Franklin, Hochstatter, Honeyford, Patterson, Rasmussen, Regala, West and Winsley.

**Staff:** Catherine Mele (786-7470)

**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.

Currently, the Insurance Holding Company Act does not apply to health care service contractors, or health maintenance organizations.

**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. 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:** Several technical changes are made. Clarifying language is added in the definitions section. 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.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** States should have this regulatory authority over health maintenance organizations and health care contractors. Registration and disclosure to the Office of the Insurance Commissioner is required, and the commissioner must approve material transactions between affiliates. There was a failure in Washington in 1991. If the Holding Company Act was part of commissioner's authority, maybe insolvency would not have occurred. Insolvencies are particularly harmful to consumers in Washington State. At the request of the commissioner, we are meeting with the Office of the Insurance Commissioner and are hopeful we can come back to the committee supporting this bill. We have been working on this bill for a decade and with certain changes we can support it.

**Testimony Against:** None.

**Testified:** Mike Kreidler, OIC (pro); Ken Bertrand, Group Health (pro w/amend); Jack McRae, Premera (pro w/amend); Nancee Wildermuth, Regence Blue Shield, Pacificare of WA (pro w/amend); Denny Eliason, WA Dental Service (pro w/amend).