
**Financial Institutions &
Insurance Committee**

HB 1230

Brief Description: Regulating insurable interests and employer-owned life and disability insurance.

Sponsors: Representatives Simpson, Benson, Schual-Berke, Conway, Cooper, Ruderman and Rockefeller; by request of Insurance Commissioner.

Brief Summary of Bill

- Prohibits an employer from obtaining a life or disability insurance policy on an employee unless certain conditions are met.
- Requires an employer to provide an employee with specified disclosures with respect to employer-owned insurance policies.
- Requires that an insured consent in writing before he or she is included in a group life insurance policy.
- Redefines the jurisdiction of the Insurance Commissioner with respect to the regulation of insurance contracts.
- Makes non-substantive, technical revisions of current statutes.

Hearing Date: 1/29/03.

Staff: Thamas Osborn (786-7129).

Background:

Controversial employer practices: In the last several years, the media has reported on the practice by some corporations of obtaining life insurance on low-level, non-salaried employees without their knowledge or consent. In one such case, a corporate employer received a large cash benefit upon the death of an insured blue-collar employee, thus causing consternation among the decedent's relatives who neither knew of the policy nor received any benefit from it.

Regulatory authority of the Insurance Commissioner: The Office of the Insurance Commissioner (OIC) is authorized to regulate both the form and content of life and disability insurance contracts that are either *issued* or *delivered* in the state of Washington.

Contractual restrictions: A person may enter into an insurance contract in order to insure the life of another, but only if:

- the benefits are payable to the insured person or that person's personal representative; or
- the person procuring the contract has an "insurable interest" in the person insured.

Insurable interest: The term "insurable interest" is defined to include:

- a substantial personal or emotional interest in an insured stemming from close family ties;
- a substantial economic interest in the continuing life, health, or safety of an insured;
- specified financial interests related to certain contracts, business relationships, and stock option arrangements; and
- certain interests of guardians, trustees or other fiduciaries with respect to beneficiaries; and
- the interests of a nonprofit organization with respect to certain life insurance policies.

Consent of the insured: Subject to specified exceptions, an individual may not be insured under a life or disability insurance contract unless the individual is legally *competent* and *consents* in writing to the contract. Exceptions to this rule include:

- group life or group disability insurance contracts;
- insurance obtained by one spouse with respect to the other; and
- insurance obtained on the life of a minor when obtained by a parent, guardian, or other person with an insurable interest in the life of the minor.

Summary of Bill:

Restrictions on employer-owned insurance policies: An employer is expressly prohibited from obtaining a life or disability insurance policy on an employee, unless:

- the employer has an "insurable interest" in the employee, as defined by statute, and such interest is equal to the face value of the policy; or
- the person insured is the beneficiary of the policy.

Any insurable interest that an employer may have in an employee ceases upon termination of employment.

Employer disclosures: An employer who purchases a life or disability policy on an employee must provide the employee with disclosures regarding the policy, which include the identification of the insurer, the benefit amount, and the identity of the beneficiary. These disclosures must be provided to the employee within 30 days of the employers purchase of the policy. With respect to current employees who are already covered by an existing employer-owned insurance contract, the employer must provide the requisite disclosures not later than 90 days after the effective date of the act.

Consent of the insured: The general rule requiring that an insured consent in writing to the issuance of a life or disability policy is expanded to include *group life* insurance policies. Under current law, group life policies are not subject to the consent requirement.

Regulatory authority: The authority of the OIC to regulate insurance contracts is expanded to include all insurance transactions that are either performed in this state or which affect persons located within this state. Current law appears to limit this authority only to policies that are either delivered or issued for delivery in this state.

Technical changes: Numerous non-substantive, technical changes are made, involving the renumbering of statutory sections and editorial revisions that clarify existing language.

Appropriation: None.

Fiscal Note: Not Requested.

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