

SENATE BILL REPORT

ESHB 1230

As of March 31, 2003

Title: An act relating to insurable interests and employer-owned life and disability insurance.

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

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Simpson, Benson, Schual-Berke, Conway, Cooper, Ruderman and Rockefeller; by request of Insurance Commissioner).

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 4/3/03.

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Staff: Joanne Conrad (786-7472)

Background: Generally, the ability to obtain insurance on another person depends upon whether there is an "insurable interest" in that person. An insurable interest is a relationship that supports the issuance of an insurance policy, and an insurable interest in the life of another requires that the continued life of the insured be of real financial or familial interest to the insuring party.

Businesses can obtain employer-owned life and disability insurance on their employees. The purpose of this coverage has traditionally been to provide funds to maintain the business in the event of the loss of a key person, such as an owner or partner. More easily replaceable employees are not usually insured in this manner, because replacements can quickly be found in the job market.

Concern exists that some employers may be able to obtain insurance on any of their employees, without the employees' knowledge.

Summary of Bill: Employer disclosures. An employer who purchases a life or disability insurance 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 employer's purchase of the policy.

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

Employer retaliation. Employers are prohibited from retaliating against an employee who will not consent to inclusion in an employer-owned life insurance policy.

Prospective application. With respect to employer-owned life insurance policies, the regulatory provisions in the bill apply only to those policies issued and delivered after the effective date of the act.

Regulatory authority of the OIC (Office of the Insurance Commissioner). It is clarified that the authority of the OIC to regulate insurance contracts includes all types of insurance other than ocean marine insurance and foreign trade insurance.

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.