

SENATE BILL REPORT

SB 5641

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, February 20, 2003

Title: An act relating to civil and criminal penalties for the unlawful transaction of insurance or health coverage.

Brief Description: Providing civil and criminal penalties for the unlawful transaction of insurance or health coverage.

Sponsors: Senators Benton, Prentice and Winsley; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 2/13/03, 2/20/03 [DPS].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: That Substitute Senate Bill No. 5641 be substituted therefor, and the substitute bill do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Keiser, Prentice, Roach and Zarelli.

Staff: Joanne Conrad (786-7472)

Background: Part of the mission of the Office of the Insurance Commissioner is to protect consumers from a variety of fraudulent schemes. Recently, there has been an increase, both nationwide and in Washington State, of insurance companies who are unauthorized to do business, or are undercapitalized. These companies represent that they are selling insurance coverage, but when a consumer experiences what they thought was a covered loss and files a claim, the company cannot pay or, in some cases, vanishes entirely. In some cases, consumers have paid premiums, and are left with losses and few effective remedies.

Summary of Substitute Bill: Civil and criminal penalties and remedies are enhanced for unlawful solicitation of insurance business. The penalties apply to unlicensed persons acting as agents, brokers, solicitors or adjusters; failure of agents to make a good faith determination of the validity of an insurance company; and unregistered persons selling contracts involving health care services or health maintenance organizations.

Penalties include class B felony liability for knowing violations, and class C felony liability for conspiracy to violate insurance sales laws. Some insurance crimes may be penalized as gross misdemeanors. Criminal penalties are in addition to any other civil or administrative penalties. The Insurance Commissioner may also issue cease and desist orders, or assess civil penalties of up to \$25,000, and take civil action to collect unpaid penalties.

Archaic insurance code language is modernized, and the crime of "transacting of insurance business beyond the scope of licensure" is added to the sentencing grid.

Substitute Bill Compared to Original Bill: Gross misdemeanor penalties and sentencing grid status are added.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Testimony For: Insurance crimes have really serious effects on the victims. Perpetrators should be jailed. Significant penalties are needed to protect vulnerable consumers. There is a new wave of insurance crime with more than \$900,000 in unpaid claims. Criminals skim premiums and then do not pay benefits. Insurance agents need to be more careful.

Testimony Against: None.

Testified: Bill Daley, OIC (pro); Marie and Lowell Miller, consumers (pro); Lynn Buell, MSW (pro).