

# SENATE BILL REPORT

## SB 5196

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As Passed Senate, February 23, 2005

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

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

**Sponsors:** Senators Fairley, Benton, Keiser, Benson, Franklin and Berkey; by request of Insurance Commissioner.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Consumer Protection: 1/19/05 [DP].  
Passed Senate: 2/23/05, 46-0.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

**Majority Report:** Do pass.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Benson, Benton, Brandland, Delvin, Franklin, Keiser, Prentice and Spanel.

**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 based on the relationship that supports the issuance of an insurance policy, and requires that the continued life of the insured be of real financial or familial interest to the insuring party.

Businesses can obtain employer or "corporate-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, partner or executive. Employees who are more easily replaceable in the job market are not usually insured in this manner.

Concern exists that some corporate employers may be able to obtain insurance on any of their employees, including those who are not "key" workers, without the employee's knowledge. This has the effect of functioning as a de facto nontaxable investment by the corporation, for its own benefit, rather than as true insurance.

**Summary of Bill:** Except for ocean marine and foreign trade insurance, insurance transactions in Washington State may not insure against the death or disability of another person unless the person contracting for the insurance has an insurable interest in the person being insured. In the case of corporate-owned life or disability insurance policies purchased by an employer on an employee, no policy may take effect unless, at the time the insurance contract is made, the individual insured consents to the contract in writing. An employer may not retaliate against an employee who does not want to be insured. For corporate-owned life

insurance, an employer must provide the employee with written notice of the identity of the insurance carrier, the maximum fact amount of the policy, and the identity of the beneficiary.

The provisions of the law apply prospectively to policies issued and delivered after the effective date of the act.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

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

**Testimony For:** Bill is agreed upon by stakeholders, as verified by Office of the Insurance Commissioner

**Testimony Against:** None

**Who Testified:** PRO: Mary Clogston, Office of the Insurance Commissioner (OIC).

**House Amendment(s):** A statement of legislative intent is added. Rulemaking and a report to the legislature on implementation of the OIC is required.

Passed House: 95-1.