

SENATE BILL REPORT

SB 6234

As Reported By Senate Committee On:
Financial Institutions, Housing & Consumer Protection, February 1, 2006
Ways & Means, February 7, 2006

Title: An act relating to insurance fraud.

Brief Description: Creating the insurance fraud program.

Sponsors: Senators Fairley, Keiser, Spanel and Esser; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions, Housing & Consumer Protection: 1/17/06,
2/1/06[DPS-WM, DNP, w/oRec].

Ways & Means: 2/6/06, 2/7/06 [DPS(FHC), DNP, w/oRec].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

Majority Report: That Substitute Senate Bill No. 6234 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Benson, Franklin, Keiser, Schmidt and Spanel.

Minority Report: Do not pass.

Signed by Senator Benton, Ranking Minority Member.

Minority Report: That it be referred without recommendation.

Signed by Senator Brandland.

Staff: Joanne Conrad (786-7472)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6234 as recommended by Committee on Financial Institutions, Housing & Consumer Protection be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Brandland, Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member and Pflug.

Minority Report: That it be referred without recommendation.

Signed by Senators Parlette, Roach and Schoesler.

Staff: Steve Jones (786-7440)

Background: National studies show that more than 10 percent of insurance claims are fraudulent, costing consumers and insurance companies millions of dollars. Washington State is the tenth highest in the U.S. for questionable claims. Organized crime conspiracies are responsible for some of the fraudulent claim activity, costing Washington companies and consumers millions of dollars.

States with organized comprehensive antifraud units tend to have significantly lower rates of fraudulent claims. Forty one states have insurance antifraud units.

Summary of Substitute Bill: An antifraud unit is created within the Office of the Insurance Commissioner (OIC). The primary focus of the unit is high impact cases involving organized criminal activity. Insurers are mandated to report fraudulent activity, and provided with immunity from liability for reporting. Information is generally protected by the fraud unit, (by information-sharing agreements) but may, in some circumstances, be discoverable or admissible as evidence in private civil litigation. Some information may be exempted from public disclosure.

The antifraud unit includes investigation and prosecution of fraudulent claims. The unit is staffed within the OIC, with interagency agreements providing an investigator to the Washington State Patrol, and a prosecuting attorney in the Attorney General's Office. Grants reimburse local prosecutors for fraud case work.

Information is shared among various federal, state, and local law enforcement agencies and regulatory agencies. Fraud investigators who are statutorily certified have the status of limited authority peace officers.

A nine-member Insurance Fraud Advisory Board is created, and criminal penalties are increased. Fraud warnings are required on applications and claim forms.

Substitute Bill Compared to Original Bill: The bill as referred to committee was not considered.

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: Seventy-five percent of states have these type of insurance fraud units. WA is vulnerable because it lacks one. Investigation and prosecution is specialized. The unit would be funded by fees already collected from insurers. OIC agents would have criminal justice training. There are \$400 million in fraud losses in Washington state, and this type of unit would be an important resource.

Testimony Against: There is too much confidentiality in the (original) bill. More consumers are needed on the advisory board. These types of investigation need more legal discovery, transparency and public scrutiny.

Who Testified: PRO: Commissioner Kriedler, OIC; Dana McDonald, NICB; Mel Sorensen, PCI, Allstate, etc; Carrie Tellefson, Progressive.

CON: Larry Shannon, WA St Trial Lawyers; Rowland Thompson, Allied Dailies.