

SENATE BILL REPORT

SB 5438

As of January 22, 1996

Title: An act relating to the application of the insurer holding company act to certified health plans, health care service contractors, and health maintenance organizations.

Brief Description: Applying the insurer holding company act.

Sponsors: Senators Fairley, Prentice and C. Anderson; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Housing: 2/7/95; 1/23/96.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Staff: Catherine Mele (786-7470)

Background: The Holding Company Act requires that businesses obtain prior approval from the office of the Insurance Commissioner in order to acquire a domestic insurance company. In order for the acquisition to be approved, the acquiring party must file certain information with the office of the Insurance Commissioner. This information includes the business and financial history of the acquiring party; the source, nature, and amount of the acquisition price; and any plans that will result in a material change in the business or corporate structure of the acquired company. The Insurance Commissioner must approve the proposed acquisition within 60 days of receiving a complete application, and after holding a public hearing on the proposed acquisition.

The Holding Company Act also requires that companies within a holding company system which are authorized to conduct business in Washington register with the office of the Insurance Commissioner. The registration includes detailed financial information about the insurance company; the identity and relationship of every member of the insurance holding company system; and material transactions between affiliates in the holding company system, and the insurance company.

Every registered insurance company is also required to report to the Office of the Insurance Commissioner all dividends and other distributions to shareholders. The dividend report must be filed at least five business days after dividends are declared, and at least 15 business days before the company pays the dividend. After receiving the report, the commissioner makes a determination to verify the insurer's financial ability to declare the dividend. If the commissioner finds a company's capital surplus inadequate, the commissioner may order the company to stop payment of the dividend.

Currently, the Insurance Holding Company Act does not apply to health care service contractors, or health maintenance organizations.

Summary of Substitute Bill: A Holding Company Act is created for health care service contractors, and health maintenance organizations.

A business is required to obtain prior approval from the office of the Insurance Commissioner in order to acquire a domestic health care service contractor, or health maintenance organization. In order for the acquisition to be approved, the acquiring party must file certain information with the office of the Insurance Commissioner. This information includes the business and financial history of the acquiring party; the source, nature, and amount of the acquisition price; and any plans that will result in a material change in the business or corporate structure of the domestic health care service contractor, or the domestic health maintenance organization.

A health care service contractor, and a health maintenance organization which are members of a holding company system conducting business in Washington must register with the Office of Insurance Commissioner. The registration must include detailed financial information about the health care service contractor or the health maintenance organization; the identity and relationship of every member of the health care service contractor or health maintenance organization holding company system; and any material transactions between affiliates in the holding company system, and the health care service contractor, or health maintenance organization.

Each registered health care service contractor, and health maintenance organization must report to the Commissioner all dividends and other distributions to shareholders within five business days after declaration, and at least 15 business days before payment. It is prohibited for health care service contractors or health maintenance organizations to pay shareholders any dividends or payments which will reduce net worth under the minimum required by law.

If the Attorney General reviews an acquisition under this act, the Attorney General is to consult with the Office of the Insurance Commissioner throughout the review, and is required to share documents and materials.

Substitute Bill Compared to Original Bill: The bill incorporated certified health plans, health care service contractors, and health maintenance organizations into the original Holding Company Act. The substitute bill creates a new Holding Company Act for health care service contractors and health maintenance organizations. Certified health plans are not considered in the substitute.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.