

FINAL BILL REPORT

SHB 1792

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Synopsis as Enacted

Brief Description: Creating the holding company act for health care service contractors and health maintenance organizations.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Benson and Hatfield; by request of Insurance Commissioner).

House Committee on Financial Institutions & Insurance
Senate Committee on Labor, Commerce & Financial Institutions

Background:

The Insurer Holding Company Act requires that businesses obtain prior approval from the Office of the Insurance Commissioner (OIC) to acquire a domestic insurance company. For the acquisition to be approved, the acquiring party must file certain information with the OIC. 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 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 file a registration statement with the OIC. The registration statement 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 OIC 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 surplus inadequate, the commissioner may order the company to stop payment of the dividend.

There are three types of health carriers in Washington: (1) disability insurers, which are traditional insurance companies that reimburse policyholders for covered health care expenses; (2) health care service contractors (HCSCs), which are organizations that

provide health care services through a provider network to enrollees who have contracted with the HCSCs; and (3) health maintenance organizations (HMOs), which are organizations that provide health care services to enrollees on a prepaid basis (generally monthly). All health carriers are regulated by the OIC as provided in state law. The OIC does not apply the Insurance Holding Company Act to HCSCs or HMOs, only to traditional insurance companies.

Summary:

A Holding Company Act for health care service contractors (HCSCs) and health maintenance organizations (HMOs) is established.

Any entity that desires to acquire an HCSC and an HMO created under the laws of another state and doing business in Washington must file a pre-acquisition notification with the Office of Insurance Commissioner. The commissioner determines the form and the information necessary for the pre-acquisition notification. The commissioner approves or denies acquisitions based on prescribed standards and procedures.

Any entity that desires to acquire a domestic HCSC or an HMO must send a statement detailing the acquisition to the Insurance Commissioner and the HCSC or HMO to be acquired. The statement filed with the commissioner includes various items such as the financial backgrounds of the individuals or businesses filing the statement, the source of the finances needed for the acquisition, fully audited financial statements for the preceding five years, any plans for liquidating or selling the assets of the domestic HCSC or HMO, and information on investments and securities. The commissioner must approve or deny the acquisition based on prescribed standards and procedures.

Every holding company system must keep its registration statement current. The HCSCs and HMOs that do business in Washington, but are domiciled in another state, do not have to file annual registration statements if the state of domicile has similar registration requirements. The registration statement contains current financial information, outstanding agreements and contracts, transactions not in the ordinary course of business, and the identity and relationship of every member of the holding company system.

The Insurance Commissioner regulates transactions within the holding company system. The commissioner may seek court orders enjoining violations of the act, seek civil and criminal penalties, and suspend, revoke, or refuse to renew registration. The commissioner has the authority to make rules and issue orders under the act.

Votes on Final Passage:

House 94 0

Senate 46 0

Effective: May 7, 2001