

***Financial Institutions &
Insurance Committee***

HB 1792

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

Sponsors: *Representatives Benson and Hatfield; by request of Insurance Commissioner.*

Brief Summary of Bill

- *A holding company act is created for health care service contractors and health maintenance organizations that is similar to the one for traditional insurance companies.*

Hearing Date: *2/20/01*

Staff: *Charlie Gavigan (786-7340).*

Background:

The Insurer 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 file a registration statement with the Office of the Insurance Commissioner. 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 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 surplus inadequate, the commissioner may order the company to stop payment of the dividend.

There are three types of health carriers in Washington State: (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 are regulated by the Office of the Insurance Commissioner (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 of Bill:

A holding company law for health care service contractors (HCSCs) and health maintenance organizations (HMOs) is established.

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

Any entity that desires to acquire a domestic HCSC or an HMO must create a statement detailing the acquisition and send it 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, information on investments and securities, marketing information, and documents that relate to the transaction. The Insurance Commissioner must approve or deny the acquisition based on specific standards and procedures.

Every holding company system must keep its registration statement current. 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 oversees transactions within the holding company system, regulates dividends not in the ordinary course of business, and must approve extraordinary dividends. 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 to implement this act.

Appropriation: None.

Fiscal Note: Not Requested.

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