

SENATE BILL REPORT

SB 6738

As Reported By Senate Committee On:
Labor, Commerce & Financial Institutions, February 7, 2002

Title: An act relating to payment of insurance claims.

Brief Description: Requiring prompt payment of insurance claims.

Sponsors: Senators Prentice and Winsley.

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 2/5/02, 2/7/02 [DPS].

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: That Substitute Senate Bill No. 6738 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Keiser, Vice Chair; Benton, Fairley, Franklin, Gardner, Rasmussen, Regala, West and Winsley.

Staff: Matthew Adams (786-7784)

Background: In Washington, all insurance policies are governed by a comprehensive insurance statute and rules adopted by the Insurance Commissioner. The statute does not currently provide for claims management requirements relating to prompt payment of amounts owned by the insurer.

In 1999, the Insurance Commissioner adopted rules for prompt payment of claims by health carriers. There is concern that similar requirements are needed for property and casualty insurers because some insurers are delaying payments on insurance claims. This delay has resulted in financial hardship to policyholders and claims disputes that must be resolved through litigation.

Summary of Substitute Bill: With the stated purpose of ensuring prompt payment of insurance claims, a new chapter is added to Washington's insurance law. This purpose is manifested in various provisions that create definitions, notice requirements, and nonexclusive remedies. A liberal construction mandate is also provided.

After receiving notice of a claim, an insurer must acknowledge receipt of the claim, commence any investigations, and request any required information from the claimant within 15 business days, or 30 business days for an eligible surplus lines insurer. In any event, the insurer must record the date, means, and content of any acknowledgment that is not in writing.

In addition, an insurer must notify a claimant in writing of the acceptance or rejection of the claim within 15 business days after receiving the claimant's information necessary to secure

final proof of loss. If the insurer reasonably believes that the loss results from arson, the insurer has 30 business days to notify the claimant. These claim-handling deadlines also apply when the insurer is unable to accept or reject the claim within the specified time period. The insurer must state reasons for needing additional time or rejecting a claim.

Once it notifies the claimant, the insurer must accept or reject the claim within 45 days. An insurer accepting the claim must pay all or part of the claim within five business days after notice was made, or the claimant performs the act upon which payment is conditioned. The deadline is extended to 20 business days for surplus lines insurers.

Remedies are created to compensate claimants receiving late payment of their claims. The insurer must pay damages, and an additional amount equaling the sum of the claim plus 18 percent annually, together with reasonable attorneys' fees. A claimant is not entitled to receive additional damages when the claim is declared invalid through arbitration or litigation.

Certain types of insurance and bonds are exempt from the claim-handling deadlines imposed. These deadlines are extended for an additional 15 days in the event of a weather-related catastrophe or major natural disaster.

Substitute Bill Compared to Original Bill: The substitute bill adds disability insurers, health care service contractors, and health maintenance organizations to the list of items exempt from the chapter.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: An insurer should have a duty to provide quick and receptive claims management based upon the premiums paid by policyholders. This bill creates incentives for prompt payment of insurance claims and for resolution of claims disputes.

Testimony Against: Trade and claims practices are currently regulated by regulation adopted by the Insurance Commissioner. Health carriers should not be subject to the bill because it shows intent to cover only property and casualty insurers.

Testified: Larry Shannon, WSTLA (pro); Jean Leonard, State Farm (con).