

# HOUSE BILL REPORT

## SB 5196

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### As Passed House - Amended:

April 14, 2005

**Title:** An act relating to insurable interests and employer-owned life insurance.

**Brief Description:** Regulating insurable interests and employer-owned life insurance.

**Sponsors:** By Senators Fairley, Benton, Keiser, Benson, Franklin and Berkey; by request of Insurance Commissioner.

### Brief History:

#### Committee Activity:

Financial Institutions & Insurance: 3/17/05, 3/24/05 [DP].

#### Floor Activity:

Passed House - Amended: 4/14/05, 95-1.

### Brief Summary of Bill (As Amended by House)

- Requires written consent of an employee before an employer may insure the life of the employee for the benefit of the employer.
- Requires the disclosure of certain information to an employee whose life is insured within 30 days of purchase of the policy by the employer.
- Provides an intent statement.
- Provides rule-making authority.
- Requires a report to the Legislature regarding implementation of the act on or before December 31, 2006.

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## HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives Kirby, Chair; Ericks, Vice Chair; Roach, Ranking Minority Member; Newhouse, O'Brien, Santos, Serben, Simpson, Strow and Williams.

**Staff:** Jon Hedegard (786-7127).

### Background:

### Regulatory authority of the Insurance Commissioner.

The Office of the Insurance Commissioner (OIC) regulates insurance transactions in the State of Washington. This includes life insurance policies that are issued or delivered in Washington. Insurance rates and insurance forms are filed with the OIC. The OIC ensures that the rates and forms comply with the Insurance Code.

### Insurance Contracts and Insurable Interests.

A person may enter into an insurance contract in order to insure the life of another if the benefits are payable to the insured person (or their personal representative) or if the person procuring the contract has an "insurable interest" in the person insured.

### Insurable Interests.

The insurable interest may be based in:

- a substantial personal or emotional interest in an insured stemming from close family ties;
- a substantial economic interest in the continuing life, health, or safety of an insured;
- specified financial interests related to certain contracts, business relationships, and stock option arrangements;
- certain interests of guardians, trustees or other fiduciaries with respect to beneficiaries; or
- the interests of a nonprofit organization with respect to life insurance policies if certain criteria are met.

Traditionally, many businesses have purchased coverage on key personnel. This protects the business against the loss of a key person, such as an owner, partner, or chief executive officer. Over the last several years, some companies and entities have extended their coverage of employees beyond high ranking staff. The lives of lower level, non-salaried employees have been insured for the benefit of the company or entity. This coverage has often been purchased without the knowledge or consent of the insured employee.

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### **Summary of Amended Bill:**

The Legislature finds that there is a long-standing principle that corporations have an insurable interest in the lives of key personnel. The Legislature intends to clarify this subject and preclude corporations from insuring the lives of employees when the employees are not key personnel and the corporations have no insurable interest in the lives of those employees.

An insured must consent in writing to the issuance of an employer-owned group life insurance policy. Employers are prohibited from retaliating against an employee who will not consent to inclusion in an employer-owned life insurance policy.

Within 30 days of purchasing a life policy on an employee, an employer must disclose to the employee the identification of the insurer, the benefit amount, and the identity of the beneficiary.

The Insurance Commissioner shall adopt rules to implement the act. The Insurance Commissioner must report to the Legislature regarding implementation of the act on or before December 31, 2006.

With respect to employer-owned life insurance policies, the bill applies only to those policies issued and delivered after the effective date of the act.

An insured is not required to consent to the issuance of a group disability insurance policy.

The bill clarifies that chapter 48.18 RCW applies to all types of insurance other than ocean marine insurance and foreign trade insurance. A provision making the chapter inapplicable to life and disability insurance policies delivered or issued outside of the state is eliminated.

Numerous technical changes are made, including the renumbering of statutory sections and editorial revisions to clarify existing language.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date of Amended Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** Senate Bill 5196 is preferable to Substitute House Bill 1033. The amendment made to Substitute House Bill 1033 was well-intended but it seemed to broaden the scope of insurable interests to include non-management employees. This Senate bill looks like other national standards and guidelines. There is a federal bill that will impact that taxation of the corporate owned life insurance. The Senate bill does not conflict with the possible federal legislation. If Congress does not act or the federal bill is altered, the Legislature could revisit the subject. The Senate bill is supported by the Insurance Commissioner and the regulated entities. The issue was worked on for the last two sessions and acceptable language was developed by the Insurance Commissioner and the regulated industries.

**Testimony Against:** None.

**Persons Testifying:** Mary Clogston, and Carol Sureau, Office of the Insurance Commissioner; John Mangan, American Council of Life Insurers; Mel Sorenson, National Association of Insurance and Financial Advisors; and Denny Eliason, Washington Bankers Association.

**Persons Signed In To Testify But Not Testifying:** None.