

HOUSE BILL REPORT

SSB 6451

*As Passed House
March 6, 1992*

Title: An act relating to insurance coverage.

Brief Description: Limiting surety liability.

Sponsor(s): Senators von Reichbauer, Vognild and Rasmussen.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, February 25, 1992,
DP;
Passed House, March 6, 1992, 95-0.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *Do pass.* Signed by 9 members:
Representatives Dellwo, Chair; Broback, Ranking Minority
Member; Mielke, Assistant Ranking Minority Member; Anderson;
Inslee; R. Johnson; Paris; Schmidt; and Winsley.

Staff: John Conniff (786-7119).

Background: Many state statutes require bonds to guarantee performance of either legal or contractual obligations. In addition, contracting parties often require posting of a bond to ensure contractual performance. Legal problems arise for sureties when the person covered by the bond fails to perform a contractual duty that results in bodily injury or property damage. For example, if a contract required a building contractor to maintain liability insurance and the contractor allows liability insurance to lapse resulting in no insurance for a subsequent third party injury, it could be argued that failure to obtain insurance resulted in non-performance of the contract, thus requiring the surety to pay for such non-performance.

Summary of Bill: A surety bond may not provide any insurance coverage other than surety coverage defined by the insurance code. Any statute, ordinance or contract requiring, or bond providing coverage not permitted under the insurance code is void. A bond may not provide coverage for damages arising out of tortious injury or death to any person or to real or personal property. A bond is

not liable for the principal's failure to have adequate insurance coverage under a contract. These restrictions apply to all sureties whether the surety is compensated or not.

Fiscal Note: Not requested.

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

Testimony For: None.

Testimony Against: None.

Witnesses: None.