SENATE BILL REPORT

SB 5511

AS OF FEBRUARY 14, 1991

Brief Description: Protecting insurance agents' contracts.

SPONSORS: Senators von Reichbauer, Johnson and Rasmussen.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Meg Jones (786-7416)

Hearing Dates: February 14, 1991

BACKGROUND:

Insurance agents are licensed by the Insurance Commissioner's office to sell insurance. Agents enter into contracts with insurers to sell a company's policies, and have the status of either independent contractors, employees or a combination. Some employees, or captive agent contracts, offer the agent a subsidy in addition to the commissions paid on business written, providing the agent with additional economic security. The contract between agent and insurer dictates the terms of their relationship. Industry figures for Washington identify 49 percent of property/casualty agents as independent, 48 percent combination employee/independent contractor and 3 percent "captive" agents who write exclusively for one company or who are employees.

Because agents temporarily bind a company if they accept a premium from a customer, the company authorizing the agent enter into contracts with insureds delegates underwriting evaluation responsibility. In exercising this responsibility, the agent's fiduciary duty is to the company to accurately evaluate the risk posed by the insured interest. It has been reported that some insurers utilizing captive agents (agents who may write a certain type of coverage only for that company) will cancel the contracts or limit the underwriting authority of the agent if the ratio of the amount of claims made on policies to the amount of premiums written on policies sold by an agent is too high. The overall property casualty loss ratio for 1987, as cited in the Insurance Commissioner's annual report, was 86 percent.

For agents cancelled by insurers, an independent agent can continue to write business through other companies, and transfer his customers to those companies if necessary. This is also true of the combination agent. For captive agents, due to the exclusivity of their contract with one insurer, if cancelled they must build a practice in its entirety without any carry over.

SUMMARY:

Insurers may not cancel or limit an agent's underwriting authority for property/casualty lines based solely on the loss ratio experience on the agent's book of business without the agent's written approval at the time of the reduction or restriction unless certain conditions are met.

Appropriation: none

Revenue: none

Fiscal Note: none requested