

SENATE BILL REPORT

SB 5823

AS OF FEBRUARY 28, 1991

Brief Description: Regulating insurance rates.

SPONSORS: Senators West, Sutherland, Owen, Sellar and Matson.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Benson Porter (786-7470)

Hearing Dates: March 1, 1991

BACKGROUND:

Washington is considered to be a so-called prior approval state for insurance rate approvals. This categorization means that rates for certain types of insurance must be filed with the Insurance Commissioner's office for review. Under state law, the commissioner can review a rate filing for 30 days and extend this review for an additional 15 days by giving notice to the insurer. If the commissioner does not disapprove a rate filing within the waiting period or extension, then the rate filing is deemed approved. Once a rate is approved following the review period, the commissioner must undertake a hearing process to deem the rate filing no longer effective.

Under the rate standard applied to rates reviewed by the commissioner, the premium rates may not be excessive, inadequate, or unfairly discriminatory. The insurance code further specifies various factors to be considered in making rates. These factors include loss experience, reasonable margin for underwriting profit, operating expenses, investment income, and other relevant factors. Moreover, certain information is required to be included in rate filings, such as the type and extent of coverage, the major operating expenses, and the impact of investment income.

In 1989, the Legislature enacted legislation specifying that investment income is a factor to be considered in the rate making process. During the fall of 1990, the commissioner proposed regulations concerning the rate review standards that has raised some concerns. These concerns relate to whether the regulation imposes a rate of return regulatory system.

SUMMARY:

The Insurance Commissioner can only disapprove a rate used in a competitive market if the rate is inadequate. If the rate is filed for use in a noncompetitive market, the commissioner may disapprove the rate if the commissioner finds the rate excessive, inadequate, or unfairly discriminatory.

It is presumed that a competitive market exists. The commissioner can determine a noncompetitive market exists by holding a hearing and ruling to that effect. The commissioner must consider all relevant factors, including the number of insurers in the market, market shares, and ease of entry into market.

Appropriation: none

Revenue: none

Fiscal Note: requested