

SENATE BILL REPORT

SB 5393

As of January 30, 2003

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

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

Sponsors: Senators Benton and Prentice; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 2/6/03.

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Staff: Joanne Conrad (786-7472)

Background: Generally, the ability to obtain insurance on another person depends upon whether there is an "insurable interest" in that person. An insurable interest is a relationship that supports the issuance of an insurance policy, and an insurable interest in the life of another requires that the continued life of the insured be of real financial or familial interest to the insuring party.

Businesses can obtain employer-owned life and disability insurance on their employees. The purpose of this coverage has traditionally been to provide funds to maintain the business in the event of the loss of a key person, such as an owner or partner. More easily replaceable employees are not usually insured in this manner, because replacements can quickly be found in the job market.

Concern exists that some employers may be able to obtain insurance on any of their employees, without the employees' knowledge.

Summary of Bill: For insurance transactions in Washington State, a person may not insure against the death or disability of another person unless they have an insurable interest in the other person. In the case of employer-owned life or disability insurance policies purchased by an employer on an employee, for the employer's benefit, the employer must have an insurable interest in the employee, and that interest ceases upon termination of employment.

Employers must provide written notice to employees when they purchase employer-owned insurance policies on them, stating the identity of the carrier, the benefit amount and the beneficiary of the policy.

Appropriation: None.

Fiscal Note: Not requested.

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