
**Consumer Protection & Business
Committee**

HB 1900

Brief Description: Enhancing consumer protections against financial fraud.

Sponsors: Representatives Doglio, Berry, Parshley, Simmons, Ormsby, Ramel, Hill, Macri and Pollet.

Brief Summary of Bill

- Requires notice to the Department of Social and Health Services and the Department of Financial Institutions (DFI), and placement of an internal account flag, by financial institutions and investment professionals, when there is reasonable belief of financial exploitation of a vulnerable adult.
- Requires notice to the DFI and policies and procedures to allow for the placement of an internal account flag by employees of financial institutions and investment professionals, when there is reasonable belief of financial fraud of an account owner or client.

Hearing Date: 2/18/25

Staff: Peter Clodfelter (786-7127).

Background:

Vulnerable Adults—Financial Exploitation.

Pending an investigation by a financial institution, the Department of Social and Health Services (DSHS), or law enforcement, if a financial institution reasonably believes that financial exploitation of a vulnerable adult may have occurred, may have been attempted, or is being attempted, the financial institution may, but is not required to, refuse a transaction requiring

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disbursal of funds contained in the account: (1) of the vulnerable adult; (2) on which the vulnerable adult is a beneficiary, including a trust or guardianship account; or (3) of a person suspected of perpetrating financial exploitation of a vulnerable adult.

A financial institution may also refuse to disburse funds if the DSHS, law enforcement, or the prosecuting attorney's office provides information to the financial institution demonstrating that it is reasonable to believe that financial exploitation of a vulnerable adult may have occurred, may have been attempted, or is being attempted.

A financial institution is not required to refuse to disburse funds when provided with information alleging financial exploitation, but may use its discretion to determine whether or not to refuse to disburse funds based on the available information.

A financial institution that refuses to disburse funds in this circumstance must make a reasonable effort to notify all parties authorized to transact business on the account orally or in writing, and report the incident to the Adult Protective Services division of the DSHS and local law enforcement.

The expiration of a refusal to disburse funds is generally the sooner of: (1) 10 business days after the date of refusal for securities-related transactions; (2) five business days after the date of refusal for other financial transactions; or (3) the time when the financial institution is satisfied that the disbursement will not result in financial exploitation of a vulnerable adult.

For purposes of the vulnerable adult law, investment advisers and broker-dealers are considered financial institutions like state and national banks, credit unions, trust companies, and savings and loan associations.

Financial Institution Individual Account Deposit Act.

The Financial Institution Individual Account Deposit Act (Act) exists to:

- provide a consistent law applicable to all financial institutions authorized to accept deposits from individuals with respect to payments by the institutions to individuals claiming rights to the deposited funds;
- to qualify and simplify the law concerning the respective ownership interests of individuals to funds held on deposit by financial institutions, both as to the relationship between the individual depositors and beneficiaries of an account, and to the financial institution-depositor-beneficiary relationships; and
- to simplify and make consistent the law pertaining to payments by financial institutions of deposited funds both before and after the death of a depositor or depositors, including provisions for the validity and effect of certain nontestamentary transfers of deposits upon the death of one or more depositors.

The Securities Act of Washington.

The Securities Act of Washington regulates the offer, sale, and purchase of securities, and regulates and requires registration of broker-dealers, investment advisers, and investment adviser

representatives.

Summary of Bill:

Vulnerable Adults—Financial Exploitation.

Pending an investigation by a financial institution, the DSHS, or law enforcement, if a financial institution reasonably believes that financial exploitation of a vulnerable adult may have occurred, may have been attempted, or is being attempted, the financial institution must immediately notify the DSHS and the Department of Financial Institutions (DFI) and comply with a new internal account flagging requirement.

A financial institution that notifies the DSHS and the DFI must place an internal flag on the account of the vulnerable adult to notify employees of the financial institution with access to the account that:

- financial exploitation of a vulnerable adult may have occurred, may have been attempted, or is being attempted;
- the DSHS and the DFI have been notified; and
- Washington law authorizes a financial institution to refuse a transaction requiring disbursement of funds when financial exploitation of a vulnerable adult may have occurred, may have been attempted, or is being attempted.

Financial Institution Individual Account Deposit Act—Financial Fraud.

The Act is amended to specify that the purpose of the Act is also to assist in preventing fraud of an individual account owner related to the individual's funds in an account.

If a financial institution reasonably believes that financial fraud of an individual in relation to funds in an account may have occurred, may have been attempted, or is being attempted, the financial institution must immediately notify the DFI.

Additionally, financial institutions with accounts of individual account owners in Washington must have policies and procedures to allow employees to place an internal flag on an account to notify other employees of the financial institution who have access to the individual's account that an interaction or a transaction with an individual account owner, or someone presenting themselves as the individual account owner, caused a reasonable belief that financial fraud of the individual account owner may have occurred, may have been attempted, or is being attempted.

These provisions may apply, but are not limited to, circumstances when the real owner of an account seeks to engage or engages in a withdrawal or other transaction or series of transactions that are substantially different in nature than withdrawals or transactions in the account's history.

The placement of an internal flag on an account is for purposes of internal use by the financial institution only and does not require a financial institution to withhold funds or refuse to engage in a transaction, or create any legal liability on the part of an employee acting in good faith placing an internal flag on an account.

The Securities Act of Washington—Financial Fraud.

If a broker-dealer, investment adviser, or investment adviser representative reasonably believes that financial fraud of an individual in relation to securities or funds in an account may have occurred, may have been attempted, or is being attempted, the broker-dealer, investment adviser, or investment adviser representative must immediately notify the DFI.

Broker-dealers, investment advisers, and investment adviser representatives must have policies and procedures to allow the placement of an internal flag on an account to notify other employees in the organization that an interaction or a transaction with a client, or someone presenting themselves as a client, caused a reasonable belief that financial fraud of the client may have occurred, may have been attempted, or is being attempted.

These provisions may apply, but are not limited to, circumstances when the real owner of an account seeks to engage or engages in a sale of a security or withdrawal of funds that are substantially different in nature than transactions or withdrawals in the account's history.

The placement of an internal flag on an account is for purposes of internal use by the organization of the broker-dealer, investment adviser, and investment adviser representative only and does not require the withholding of funds or refusal to engage in a transaction or create any legal liability on the part of an individual broker-dealer, investment adviser, investment adviser representative, or employee, while acting in good faith.

Appropriation: None.

Fiscal Note: Requested on February 11, 2025.

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