

# HOUSE BILL REPORT

## E2SHB 1557

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### As Amended by Senate

**Title:** An act relating to insurance fraud.

**Brief Description:** Combatting insurance fraud.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives L. Thomas, Dellwo, Mielke, Wolfe, G. Fisher, Blanton and Poulsen; by request of Insurance Commissioner and Attorney General).

**Brief History:**

**Committee Activity:**

Financial Institutions & Insurance: 2/6/95, 3/1/95 [DPS];  
Appropriations: 3/4/95 [DP2S(w/o sub FII)].

**Floor Activity:**

Passed House: 3/11/95, 64-29.  
Senate Amended.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Benton; Campbell; Dyer; Huff; Mielke and Pelesky.

**Minority Report:** Do not pass. Signed by 6 members: Representatives Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Costa; Dellwo; Kessler and Ogden.

**Staff:** Charlie Gavigan (786-7340).

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Financial Institutions & Insurance. Signed by 19 members: Representatives Silver, Chairman; Clements, Vice Chairman; Huff, Vice Chairman; Pelesky, Vice Chairman; Beeksma;

Brumsickle; Carlson; Cooke; Crouse; Foreman; Hargrove; Hickel; Lambert; Lisk; McMorris; Reams; Sehlin; Sheahan and Talcott.

**Minority Report:** Do not pass. Signed by 11 members: Representatives Sommers, Ranking Minority Member; Valle, Assistant Ranking Minority Member; Chappell; Dellwo; G. Fisher; Grant; Jacobsen; Poulsen; Rust; Thibaudeau and Wolfe.

**Staff:** Jim Lux (786-7152).

**Background:** Washington has several provisions in current law regarding insurance fraud. It is unlawful for an agent or broker to make a false statement on an application for insurance. The insurance contract may be voided if the insured obtained insurance by providing a fraudulent application. It is unlawful for any person to make a false claim for benefits under an insurance policy in general and for health care in particular. Willful destruction of insured property is a felony. Immunity is provided for disclosing information regarding arson.

**Summary of Bill:** Current laws are modified or expanded to address insurance fraud, and new provisions are added to fight insurance fraud, including anti-rebating laws, anti-fraud plans by insurance companies, and anti-fraud units operated by the Washington State Patrol and Attorney General.

In addition to current requirements regarding providing proof of loss when filing an insurance claim, an insurance company may require that the claimant be examined under oath. The current provision making it unlawful for an agent or broker to make a false statement on an application for insurance is expanded to cover all persons and includes making misleading statements. The Arson Reporting Immunity Act is amended to become the Insurance Fraud Reporting Immunity Act; immunity is provided for disclosing information regarding insurance fraud.

New crimes are defined for commercial bribery, rebates relating to insurance claims, and trafficking in insurance claims, while the following crimes are expanded or the seriousness level increased: unlawful practice of law, unlicensed practice of a profession or business, and health care false claims.

It is unlawful to direct or refer a person with an insurance claim to a provider of health, automotive repair, or insurance claim services unless the conduct is purely social or gratuitous, is authorized by business and professional statutes or rules, or is done as part of a group-buying arrangement. A provider of health, automotive, or insurance claim services cannot engage in the regular practice of waiving, rebating, or paying an insurance claimant's insurance deductible. A single violation of these provisions is a gross misdemeanor, and subsequent violations are a class C felony; a violation is also a violation of the Consumer Protection Act. Injunctive relief is available for violation or threatening to violate anti-fraud provisions. When a person

is found by a court to have violated certain anti-fraud provisions, the attorney general or prosecuting attorney must provide written notice of the judgment to the appropriate regulatory or disciplinary body.

Every insurance company licensed to write property and casualty insurance in Washington must prepare and maintain an insurance anti-fraud plan. The company must certify to the Insurance Commissioner that it has completed the plan.

An insurance fraud prosecution unit is created in the Office of the Attorney General and an insurance fraud investigation unit is created in the Washington State Patrol. The Attorney General coordinates both units. The Office of the Insurance Commissioner contracts with the Attorney General regarding the prosecution unit.

The Insurance Antifraud Account is established in the custody of the State Treasurer to fund the activities of the Washington State Patrol insurance fraud investigation unit. The account is funded from a transfer of three-tenths of 1 percent of the existing premium tax collected from the insurance industry (all the premium tax currently goes to the general fund). The insurance fraud prosecution unit in the Attorney General's office is funded a minimum of \$750,000 that is to from the Insurance Commissioner's current level operating budget.

The Washington State Bar Association is requested to submit to the Legislature by November 1995 a report on the recommendations of its task force on nonlawyer practice.

**EFFECT OF SENATE AMENDMENT(S):**

**The Senate striking amendment removes the insurance fraud units in the Office of the Attorney General and the State Patrol, and removes funding for those units. Insurers are required to file their anti-fraud plan with the Office of the Insurance Commissioner for review. The definition of the crime of trafficking in insurance claims is changed.**

**Appropriation:** None.

**Fiscal Note:** Requested February 3, 1995.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 1995.

**Testimony For:** (Financial Institutions & Insurance) Insurance fraud is a major issue, costing the industry and consumers substantially. This bill goes after organized fraud, which current law is not adequately addressing. In order to successfully fight organized fraud, public agencies must be involved. As other states strengthen their

anti-fraud provisions, Washington will be an appealing target if we do not strengthen our laws. A fraud bureau can be very helpful in fighting organized insurance fraud. (Concerns were expressed regarding where to place an insurance fraud bureau, how to fund it, and regarding the clarity of some provisions.)

(Appropriations) The level of insurance fraud, particularly organized insurance fraud, is sufficient to justify the need for better tools and greater emphasis.

**Testimony Against:** (Financial Institutions & Insurance) None.

(Appropriations) The underlying bill is necessary; however, the funding of the Insurance Fraud Prosecution Unit using funds from Office of the Insurance Commissioner will divert funding from the insurance commissioner's consumer protection efforts. The addition of new crimes and increased seriousness levels, as well as the requirement that only the Office of the Attorney General can bring a cause of action, will increase costs and result in an added workload without a corresponding increase in funding.

**Testified:** (Financial Institutions & Insurance) Deborah Senn, Insurance Commissioner (pro); Christine Gregoire, Attorney General (pro); Patrick Musick (pro); Sharron Sellers, Washington State Trial Lawyers Association (pro, with concerns); George Thornton, Washington State Trial Lawyers Association (pro, with concerns); Mel Sorensen, National Association of Insurance (pro, with concerns); Steve Schweun, State Farm Insurance (pro); Doug Blank, Safeco (pro); Patrick Sainsbury, Washington Association of Prosecuting Attorneys (pro); Susan Storey, Washington Association of Prosecuting Attorneys (pro); Cliff Webster, Washington State Medical Association (pro, if amended); and Robert Weldon, Washington State Bar Association (pro).

(Appropriations) (In favor) Representative Les Thomas, prime sponsor; and Representative Todd Mielke. (In favor with amendments) Mel Sorenson, National Association of Insurance; and Jean Leonard, State Farm Insurance and Washington Insurance Industry. (Against regarding funding) Patrick Musick, Office of the Insurance Commissioner; and Richard Heath, Office of the Attorney General.

**Votes on Final Passage:**

Yeas 64; Nays 29; Excused 4; Absent 1

Nays: Appelwick, Basich, Brown, Casada, Chopp, Cody, Cole, Conway, Costa, Dellwo, Dickerson, Ebersole, R. Fisher, Grant, Kessler, Mason, Morris, Ogden, Padden, Quall, Regala, Romero, Rust, Sommers, Thibaudeau, Tokuda, Valle, Veloria, Wolfe

Excused: Beeksma, Jacobsen, Patterson, Reams

Absent: Silver