

# SENATE BILL REPORT

## ESB 6623

---

As Passed Senate, February 12, 2004

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

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

**Sponsors:** Senator Prentice.

**Brief History:**

**Committee Activity:** Financial Services, Insurance & Housing: 2/2/04 [DP].

Passed Senate: 2/12/04, 49-0.

---

### SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

**Majority Report:** Do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Berkey, Keiser, Murray, Prentice and Roach.

**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 or "corporate-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. Employees more easily replaced in the job market are not usually insured in this manner.

Concern exists that some corporate employers may be able to obtain insurance on any of their employees, without the employee's knowledge. This has the effect, in some cases, of acting as a de facto nontaxable "investment" by the corporation, rather than as true insurance.

**Summary of Bill:** For insurance transactions in Washington State, a person (including a corporation) may not insure against the death or disability of another person unless he or she has an insurable interest in the other person. In the case of employer/corporate-owned life or disability insurance policies purchased by an employer on an employee, no policy may take effect unless, at the time the insurance contract is made, the individual insured is legally competent to contract and applies for or assents to the contract in writing. Employers must notify workers when they purchase insurance on them.

This chapter does not apply to ocean marine and foreign trade insurances issued for delivery in Washington State. The law only applies prospectively, to policies issued after the effective date of the act.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** It is believed that most of the controversy over "COLI" has been worked out, with a lot of interim work by numerous parties. However, the bill needs to have some "small issues" accommodated and should have an emergency clause added.

**Testimony Against:** None.

**Testified:** Bill Daley, OIC (pro w/concerns).