

AN ACT

ENTITLED, An Act to establish consumer protection standards regarding certain insurance claim practices and to provide for certain penalties.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF SOUTH DAKOTA:

Section 1. Terms used in this Act mean:

- (1) "Director," the director of the South Dakota Division of Insurance;
- (2) "Insured," the party named on a policy or certificate as the individual with legal rights to the benefits provided by the policy;
- (3) "Insurer," a person, reciprocal exchange, interinsurer, Lloyd's insurer, fraternal benefit society, and any other legal entity engaged in the business of insurance, including claim agents, brokers, adjusters, and third party administrators. The term also includes medical service plans, hospital service plans, health maintenance organizations, prepaid limited health care service plans, dental plans, and optometric plans. This term does not include any insurance producer licensed pursuant to chapter 58-30, unless an insurance producer is directly involved in the adjudication of claims;
- (4) "Person," a natural or artificial entity, including individuals, partnerships, associations, trusts, or corporations;
- (5) "Policy," or "certificate," a contract of insurance, indemnity, medical, health, or hospital service, or annuity issued. The term does not include contracts of workers' compensation, fidelity, suretyship, or boiler and machinery insurance.

Section 2. The provisions of this Act set forth standards for claim investigation and disposition of claims arising under policies or certificates of insurance issued to residents of South Dakota. It does not apply to claims involving workers' compensation, fidelity, suretyship, or boiler and machinery insurance. Nothing in this Act may be construed to create or imply a private cause of

action for violation of this Act. No disposition under the provisions of this Act or any rule promulgated thereto may be used as evidence in any civil litigation. Nothing herein alters the rules of evidence as contained in title 19.

Section 3. Any act by an insurer, if committed in violation of this section, is an unfair claims practice if:

- (1) It is committed flagrantly and in conscious disregard of the provisions of this Act or any rule promulgated pursuant to this Act; or
- (2) It is committed with such frequency to indicate a general business practice to engage in that type of conduct.

For any act defined in section 4 of this Act, the director shall provide notice and an opportunity to correct the violation pursuant to § 58-33-68 if the act was inadvertent. Any act that is committed flagrantly or in conscious disregard of the provisions of this Act are not subject to the procedures required under § 58-33-68.

Section 4. Any of the following acts by an insurer, if committed in violation of section 3 of this Act, is an unfair claims practice:

- (1) Knowingly misrepresents to a claimant or an insured a relevant fact or policy provision relating to coverages at issue;
- (2) Fails to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies;
- (3) Fails to adopt and implement reasonable standards to promptly complete claim investigations and settlement of claims arising under its policies;
- (4) Fails to make a good faith attempt to effectuate prompt, fair, and equitable settlement of claims submitted in which liability coverage, and causation of claims have become reasonably clear;

- (5) Compels an insured or beneficiary to institute a suit to recover an amount due under its policies by offering substantially less than the amount ultimately recovered in a suit brought by the insured or beneficiary;
- (6) Refuses to pay claims without conducting a reasonable claim investigation;
- (7) Fails to affirm or deny coverage of claims within a reasonable time after having completed a claim investigation related to the claim;
- (8) Attempts to settle a claim for less than the amount that a reasonable person would believe the insured or beneficiary is entitled by reference to written or printed advertising material accompanying or made part of an application;
- (9) Attempts to settle a claim on the basis of an application that was materially altered without notice to, or knowledge or consent of, the insured;
- (10) Makes a claim payment to an insured or beneficiary without indicating the coverage under which each payment is being made;
- (11) Unreasonably delays a claim investigation or payment of a claim by requiring both a formal proof of loss form and subsequent verification that would result in duplication of information and verification appearing in the formal proof of loss form;
- (12) Fails, in the case of a claim denial or offer of compromise settlement, to promptly provide a reasonable and accurate explanation of the basis for such action; or
- (13) Fails to provide forms necessary to present a claim within fifteen days of a request with reasonable explanations regarding their use.

Section 5. If the director has reasonable cause to believe that an insurer doing business in this state is engaging in an unfair claims practice and that a proceeding in respect thereto is in the public interest, the director may issue and serve upon the insurer a notice of hearing, which shall set a hearing date not less than thirty days from the date of the notice. The hearing shall be conducted

pursuant to chapter 1-26. Prior to conducting a public hearing pursuant to this section against an insurer regulated by chapter 58-35, the director shall attempt to resolve the alleged unfair claims practice with the insurer.

Section 6. If, after the hearing, the director finds an insurer has engaged in an unfair claims practice, the director shall reduce the findings to writing and shall issue and serve the insurer a copy of the findings and an order requiring the insurer to cease and desist from engaging in the act or practice. The secretary of Labor and Regulation may order either or both of the following:

- (1) The insurer to pay a monetary penalty of not more than one thousand dollars for each violation but not to exceed an aggregate penalty of one hundred thousand dollars, unless the violation was committed flagrantly and in conscious disregard of this Act, in which case the penalty may not be more than twenty-five thousand dollars for each violation, but not to exceed an aggregate penalty of two hundred fifty thousand dollars; and
- (2) Suspension or revocation of the insurer's license if the insurer knew or reasonably should have known it was in violation of this Act.

This section only applies to violations of this Act. Any penalty imposed pursuant to this section is the sole and exclusive remedy for any act or violation brought by the director under this Act.

The director shall consider the size, the amount of surplus, and the premium volume of the insurer when determining a penalty pursuant to this section.

Section 7. The director may promulgate rules, pursuant to chapter 1-26, to carry out the purposes of this Act. In promulgating rules, the director shall consider the impact of the rule on the cost and availability of insurance in this state and the degree of protection that the rule will have for the insurance buying public in this state. The rules are limited to the following areas:

- (1) Definition of terms; and
- (2) Record keeping.

An Act to establish consumer protection standards regarding certain insurance claim practices and to provide for certain penalties.

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I certify that the attached Act originated in the

HOUSE as Bill No. 1054

\_\_\_\_\_  
Chief Clerk

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\_\_\_\_\_  
Speaker of the House

Attest:

\_\_\_\_\_  
Chief Clerk

\_\_\_\_\_  
President of the Senate

Attest:

\_\_\_\_\_  
Secretary of the Senate

House Bill No. 1054  
File No. \_\_\_\_\_  
Chapter No. \_\_\_\_\_

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Received at this Executive Office this \_\_\_\_\_ day of \_\_\_\_\_ ,

20\_\_\_\_ at \_\_\_\_\_ M.

By \_\_\_\_\_  
for the Governor

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The attached Act is hereby approved this \_\_\_\_\_ day of \_\_\_\_\_ , A.D., 20\_\_\_\_

\_\_\_\_\_  
Governor

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STATE OF SOUTH DAKOTA,  
ss.

Office of the Secretary of State

Filed \_\_\_\_\_ , 20\_\_\_\_  
at \_\_\_\_\_ o'clock \_\_ M.

\_\_\_\_\_  
Secretary of State

By \_\_\_\_\_  
Asst. Secretary of State