

# State of South Dakota

EIGHTY-NINTH SESSION  
LEGISLATIVE ASSEMBLY, 2014

400V0421

## HOUSE ENGROSSED NO. **HB 1054** - 01/23/2014

**This bill has been extensively amended (hoghoused) and may no longer be consistent with the original intention of the sponsor.**

Introduced by: The Committee on Judiciary at the request of the Department of Labor and Regulation

1 FOR AN ACT ENTITLED, An Act to establish consumer protection standards regarding certain  
2 insurance claim practices and to provide for certain penalties.

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

4 Section 1. Terms used in this Act mean:

5 (1) "Director," the director of the South Dakota Division of Insurance;

6 (2) "Insured," the party named on a policy or certificate as the individual with legal rights  
7 to the benefits provided by the policy;

8 (3) "Insurer," a person, reciprocal exchange, interinsurer, Lloyd's insurer, fraternal  
9 benefit society, and any other legal entity engaged in the business of insurance,  
10 including claim agents, brokers, adjusters, and third party administrators. The term  
11 also includes medical service plans, hospital service plans, health maintenance  
12 organizations, prepaid limited health care service plans, dental plans, and optometric  
13 plans;

14 (4) "Person," a natural or artificial entity, including individuals, partnerships,



1 associations, trusts, or corporations;

2 (5) "Policy," or "certificate," a contract of insurance, indemnity, medical, health, or  
3 hospital service, or annuity issued. The term does not include contracts of workers'  
4 compensation, fidelity, suretyship, or boiler and machinery insurance.

5 Section 2. The provisions of this Act set forth standards for claim investigation and  
6 disposition of claims arising under policies or certificates of insurance issued to residents of  
7 South Dakota. It does not apply to claims involving workers' compensation, fidelity, suretyship,  
8 or boiler and machinery insurance. Nothing in this Act may be construed to create or imply a  
9 private cause of action for violation of this Act. No disposition under the provisions of this Act  
10 or any rule promulgated thereto may be used as evidence in any civil litigation. Nothing herein  
11 alters the rules of evidence as contained in title 19.

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

14 (1) It is committed flagrantly and in conscious disregard of the provisions of this Act or  
15 any rule promulgated pursuant to this Act; or

16 (2) It is committed with such frequency to indicate a general business practice to engage  
17 in that type of conduct.

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

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

24 (1) Knowingly misrepresents to a claimant or an insured a relevant fact or policy

- 1 provision relating to coverages at issue;
- 2 (2) Fails to acknowledge with reasonable promptness pertinent communications with  
3 respect to claims arising under its policies;
- 4 (3) Fails to adopt and implement reasonable standards to promptly complete claim  
5 investigations and settlement of claims arising under its policies;
- 6 (4) Fails to make a good faith attempt to effectuate prompt, fair, and equitable settlement  
7 of claims submitted in which liability has become reasonably clear;
- 8 (5) Compels an insured or beneficiary to institute a suit to recover an amount due under  
9 its policies by offering substantially less than the amount ultimately recovered in a  
10 suit brought by the insured or beneficiary;
- 11 (6) Refuses to pay claims without conducting a reasonable claim investigation;
- 12 (7) Fails to affirm or deny coverage of claims within a reasonable time after having  
13 completed a claim investigation related to the claim;
- 14 (8) Attempts to settle a claim for less than the amount that a reasonable person would  
15 believe the insured or beneficiary is entitled by reference to written or printed  
16 advertising material accompanying or made part of an application;
- 17 (9) Attempts to settle a claim on the basis of an application that was materially altered  
18 without notice to, or knowledge or consent of, the insured;
- 19 (10) Makes a claim payment to an insured or beneficiary without indicating the coverage  
20 under which each payment is being made;
- 21 (11) Unreasonably delays a claim investigation or payment of a claim by requiring both  
22 a formal proof of loss form and subsequent verification that would result in  
23 duplication of information and verification appearing in the formal proof of loss  
24 form;

1 (12) Fails, in the case of a claim denial or offer of compromise settlement, to promptly  
2 provide a reasonable and accurate explanation of the basis for such action; or

3 (13) Fails to provide forms necessary to present a claim within fifteen days of a request  
4 with reasonable explanations regarding their use.

5 Section 5. If the director has reasonable cause to believe that an insurer doing business in  
6 this state is engaging in an unfair claims practice and that a proceeding in respect thereto is in  
7 the public interest, the director may issue and serve upon the insurer a notice of hearing, which  
8 shall set a hearing date not less than thirty days from the date of the notice. The hearing shall  
9 be conducted pursuant to chapter 1-26. Prior to conducting a public hearing pursuant to this  
10 section against an insurer regulated by chapter 58-35, the director shall attempt to resolve the  
11 alleged unfair claims practice with the insurer.

12 Section 6. If, after the hearing, the director finds an insurer has engaged in an unfair claims  
13 practice, the director shall reduce the findings to writing and shall issue and serve the insurer  
14 a copy of the findings and an order requiring the insurer to cease and desist from engaging in  
15 the act or practice. The director may, at the director's discretion, order either or both of the  
16 following:

17 (1) The insurer to pay a monetary penalty of not more than one thousand dollars for each  
18 violation but not to exceed an aggregate penalty of one hundred thousand dollars,  
19 unless the violation was committed flagrantly and in conscious disregard of this Act,  
20 in which case the penalty may not be more than twenty-five thousand dollars for each  
21 violation, but not to exceed an aggregate penalty of two hundred fifty thousand  
22 dollars; and

23 (2) Suspension or revocation of the insurer's license if the insurer knew or reasonably  
24 should have known it was in violation of this Act.

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

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

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

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