
SENATE COMMITTEE ON INSURANCE**Senator Susan Rubio, Chair****2021 - 2022 Regular**

Bill No:	AB 1511	Hearing Date:	June 24, 2021
Author:	Committee on Insurance		
Version:	June 14, 2021		
Urgency:	No	Fiscal:	Yes
Consultant:	Brian Flemmer		

SUBJECT: Insurance: omnibus

DIGEST: This bill aligns mailing requirements for notices of renewal and nonrenewal; makes changes to the leeway law to incentivize insurer investment in renewable energy and community development; clarifies penalties for fraud; clarifies the California Insurance Commissioner's (commissioner) authority to suspend or revoke a license; and revises surety bond requirements.

ANALYSIS:

Existing law:

- 1) Provides for the regulation of insurers, agents and brokers, and other insurance-like organizations by the commissioner, and imposes a broad range of financial solvency, licensing and market behavior requirements, as set forth in the Insurance Code.

This bill:

- 1) Provides, on and after July 1, 2022, mailing requirements and extended response time periods apply to a timely offer of renewal or notice of nonrenewal of a residential property insurance policy.
- 2) Adds flexibility to the leeway law, which governs how insurers may make certain investments, in order to encourage insurers to make more California Organized Investment Network (COIN) qualified investments. These include investments in renewable energy and community development.
- 3) Authorizes similar diversification of State Compensation Insurance Fund (State Fund) investments until January 1, 2027, by authorizing limited discretionary authority to make Environmental, Social, or Governance investments in line with existing authorities for other insurers, specifically in properties and securities, and money market mutual funds.
- 4) Allows the commissioner to deny an application for a production agency license, or suspend or revoke a permanent license, if the applicant or controlling person has been found liable by clear and convincing evidence in a civil action involving allegations of elder or dependent abuse, oppression, fraud, malice, misappropriation or conversion of funds, misrepresentation, or breach of fiduciary duty.

- 5) Specifies that making a knowingly false or fraudulent material statement or representation to obtain or amend an insurance policy is unlawful and is punishable by a fine not to exceed \$10,000 or imprisonment not to exceed 1 year.
- 6) Excludes a life insurance contract provision providing a terminal illness benefit from disability insurance policy requirements. Defines “terminal illness benefit” as a provision, endorsement, or rider added to a life insurance policy that provides for the advance payment of any part of the death proceeds, payable upon the occurrence of a terminal illness.
- 7) Eliminates the reference to a California Department of Insurance (CDI) office in San Francisco and instead refers to the office in the City of Oakland.
- 8) Allows the commissioner of CDI to apply to the clerk of the superior court for a judgment to enforce an order requiring a person to pay a monetary penalty or reimburse CDI for its prosecutorial costs for violating the Insurance Code.
- 9) Makes changes to surety bond requirements.

Background

This is the annual omnibus bill, containing several noncontroversial proposals.

Aligning Mailing Timelines. This legislation aligns both cancellation and non-renewal notices for homeowners’ and workers’ compensation insurance policies to ensure they receive extra mail-time-delay-days so consumers have a better chance to retrieve these documents on time.

California Organized Investment Network. The COIN Program was created in 1996 as a public/private partnership between CDI, the insurance industry, state government leaders, and community development organizations. COIN's goal is to help address unmet capital needs that support investments in economic development and affordable housing in low-income urban and rural communities throughout California. The program serves as a liaison between insurers that are seeking investment opportunities and the community organizations that are seeking investment capital for projects. The COIN program may be viewed as implementing two functions: facilitating socially beneficial investments and reporting insurer investments.

The State Compensation Insurance Fund. Created by statute in 1914, State Fund serves as a workers’ compensation insurer for the State as well as to ensure all employers have access to coverage. The State Fund is required to maintain enough market share to remain financially stable and provide quality services, but not compete for increased market share or make a profit. The State Fund also serves as a third-party administrator for self-insured public and private employers. The provisions related to granting COIN and State Fund additional investment authorities come from SB 713 (Rubio). For an in depth discussion on these provisions see the Committee analysis of SB 713.

Converting Fines and Penalties to an Enforceable Civil Judgement. This bill proposes to align CDI with authority that the California Department of Toxic Substances Control has

today by allowing CDI authority to convert monetary penalties into enforceable civil judgments against bad actor licensees.

Surety Bond Requirements. California is one of only four states that requires independent insurance claims adjusters to hold a surety bond (in California, \$2,000). Most independent adjusters work for companies that themselves are licensed through the Department of Insurance. These companies, not the individual adjuster, would be liable for any adjusting errors or malfeasance. Because of this, and that liability would likely always amount to more than \$2000, proponents argue this requirement is outdated for a large share of adjusters. This bill would exempt licensed insurance adjusters, as specified, from the bonding requirements if their employer has filed a surety bond or meets requirements with a certificate of insurance.

Fraud Terminology. CDI argues that applicant fraud cases are sometimes not prosecuted because the statutes use the term “claim” instead of “application.” This proposal will make it clear that cases involving applicants fraudulently obtaining insurance policies are subject to CDI’s anti-fraud statutes.

Standard Nonforfeiture Law for Individual Deferred Annuities. This proposal will adopt the National Association of Insurance Commissioners (NAIC) model amendment to the Standard Nonforfeiture Law for Individual Deferred Annuities which reduces minimum interest rates used to determine minimum nonforfeiture amounts to 0.15% so consumers can continue to access greater financial security for retirement.

Suggested Amendments

The committee recommends Sections 13 and 14 be struck from the bill due to concerns raised by stakeholders.

Related/Prior Legislation

SB 1255 (Committee on Insurance) Chapter 184, Statutes of 2020, provided procedural flexibility to the California Department of Insurance (CDI) when holding a hearing to suspend or revoke a license for alleged misconduct against seniors; clarified when a life insurer can restrict access to policy withdrawals; cleaned up ambiguity in CDI’s licensing statutes; prohibited discrimination in life insurance against HIV positive applicants; and made other technical, nonsubstantive changes.

ARGUMENTS IN SUPPORT:

The California Insurance Commissioner Ricardo Lara writes in support, “This bill remedies issues identified by California Department of Insurance (CDI) staff to clarify and cleanup obsolete and superseded code sections as well as incorporates non-controversial matters dealing with state insurance regulation.

ARGUMENTS IN OPPOSITION:

The Consumer Federation of California argues in opposition, “CFC must unfortunately oppose the new provisions of AB 1511 which eliminate existing public contracting protections for Independent Medical Review Organizations (IMR), and respectfully requests that these provisions, Sections 13 and 14 of the bill that amend Insurance

Code Sections 10169.2 and 10169.5, be removed from the bill, per the longstanding general rules that have governed omnibus bills authored by the respective Insurance Committees.

SUPPORT:

Association of Claims Professionals
California Department of Insurance

OPPOSITION:

Consumer Federation of California (Verified June 23, 2021)

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