

Assembly Bill No. 700

CHAPTER 47

An act to amend Sections 12102 and 12114 of the Insurance Code, relating to insurance, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor June 14, 2004. Filed with
Secretary of State June 14, 2004.]

LEGISLATIVE COUNSEL'S DIGEST

AB 700, Diaz. Insurance.

Existing law provides that an insurer that anywhere transacts or is licensed to transact any class of insurance other than financial guaranty insurance and surety insurance shall not be eligible for a certificate of authority to transact financial guaranty insurance unless the insurer transacts financial guaranty insurance in another state under the line of credit insurance.

This bill would provide, instead, that an insurer that anywhere transacts or is licensed to transact any class of insurance other than financial guaranty insurance, surety insurance, and credit insurance shall not be eligible for a certificate of authority to transact financial guaranty insurance, but in other states, may assume those classes of insurance if it is authorized to transact those lines in other states.

Existing law requires a financial guaranty insurance corporation to maintain capital, surplus, and contingency reserve, as specified. Existing law provides that this sum may include additional surplus determined by the Insurance Commissioner to be adequate to support the writing of surety insurance if the financial guaranty insurance corporation has been admitted to transact that class of insurance.

This bill would provide that the sum may include additional surplus determined by the commissioner to be adequate to support the writing of surety insurance and credit insurance if the financial guaranty insurance corporation has been admitted to transact surety insurance and credit insurance. This bill would also provide that whenever the commissioner determines that the reserves for outstanding credit insurance losses or loss expenses of an insurer licensed to transact financial guaranty insurance, he or she shall require the insurer to maintain additional reserves.

This bill would declare that it is to take effect immediately as an urgency statute.

The people of the State of California do enact as follows:

SECTION 1. Section 12102 of the Insurance Code is amended to read:

12102. (a) An insurer with a certificate of authority to transact the business of financial guaranty insurance as defined in Section 12100 may also transact the business of surety insurance as defined in Section 105.

(b) An insurer licensed in this state to transact financial guaranty insurance may not transact any other classes of insurance in this state except surety insurance.

(c) An insurer that anywhere transacts or is licensed for any classes other than financial guaranty insurance, surety insurance, and credit insurance shall not be eligible for a certificate of authority for the class of financial guaranty insurance in this state.

(d) A financial guaranty insurance corporation may only assume in this state those lines of insurance it is admitted to transact in this state.

(e) In other states, an insurer may assume financial guaranty, surety, and credit lines of insurance if it is authorized to transact those lines of insurance in other states.

(f) After licensure the holder shall continue to comply with the requirements of this section.

SEC. 2. Section 12114 of the Insurance Code is amended to read:

12114. (a) At least 95 percent of a financial guaranty insurance corporation's outstanding total net liability on the kinds of obligations enumerated in subparagraphs (A), (B), and (C) of paragraph (1) of subdivision (b) of Section 12112 shall be investment grade.

(b) The financial guaranty insurance corporation shall at all times maintain capital, surplus, and contingency reserve in the aggregate no less than the sum of the following:

(1) 0.3333 percent of the total net liability under guaranties of municipal bonds and utility first mortgage obligations.

(2) 0.6666 percent of the total net liability under guaranties of investment grade asset-backed securities.

(3) 1.0 percent of the total net liability under guaranties, secured by collateral or having a term of seven years or less of:

(A) Investment grade industrial development bonds, and

(B) Other investment grade obligations.

(4) 1.5 percent of the total net liability under guaranties of other investment grade obligations.

(5) 2.0 percent of the total net liability under guaranties of:

(A) Noninvestment grade consumer debt obligations, and

(B) Noninvestment grade asset-backed securities.



(6) 3.0 percent of the total net liability under guaranties of noninvestment grade obligations secured by first mortgages on commercial real estate and having loan-to-value ratios of 80 percent or less.

(7) 5.0 percent of the total net liability under guaranties of other noninvestment grade obligations.

(8) If the amount of collateral required by paragraph (3) of subdivision (b) is no longer maintained, that proportion of the obligation insured which is not so collateralized shall be subject to the aggregate limits specified in paragraph (4) of subdivision (b).

(9) Additional surplus determined by the commissioner to be adequate to support the writing of surety insurance and credit insurance if the financial guaranty insurance corporation has been authorized to transact surety insurance and credit insurance as authorized by Section 12102.

(c) Whenever the reserves for outstanding credit insurance losses or loss expenses or any insurer licensed in this state to transact financial guaranty insurance are determined by the commissioner to be inadequate, he or she shall require the insurer to maintain additional reserves.

SEC. 3. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

Allowing financial guaranty insurers to also be licensed to underwrite credit insurance will result in an increased number of financial guaranty insurers eligible to be licensed in California increasing competition for financial guaranty insurance and reducing costs associated with insuring public and private securities.

