

Assembly Bill No. 2230

Passed the Assembly May 1, 2014

Chief Clerk of the Assembly

Passed the Senate June 19, 2014

Secretary of the Senate

This bill was received by the Governor this _____ day
of _____, 2014, at _____ o'clock ____M.

Private Secretary of the Governor

CHAPTER _____

An act to amend Sections 1063.5 and 1063.74 of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 2230, Cooley. Insurance: Workers' Comp Bond Fund: assessments.

Existing law creates the California Insurance Guarantee Association (CIGA) and requires all insurers admitted to transact insurance in this state to become members. CIGA is required to collect premium payments from members to discharge its obligations to cover claims of an insolvent insurer. Existing law provides that CIGA shall be a party in interest in all proceedings involving a covered claim, and has all of the rights an insolvent insurer would have if the insurer was not in liquidation. CIGA is required to allocate its claim payments and costs based on categories of insurance, including, but not limited to, workers' compensation claims and homeowners' claims. The premium payments from each category are separate and required to be used to pay the claims and costs allocated to that category. Existing law provides that the premium charged to a member insurer for any of the categories of insurance is 1% of the net direct written premium, as defined, written in the category by the member per year.

Existing law authorizes CIGA to request the issuance of bonds by the California Infrastructure and Economic Development Bank to pay for covered claims that arise as a result of the insolvency of workers' compensation insurers. Proceeds from the sale of the bonds are deposited in the Workers' Comp Bond Fund, and CIGA distributes this money to pay covered claims. Principal and interest on the bonds are paid from special bond assessments levied by CIGA on workers' compensation insurers, as provided.

This bill would, commencing January 1, 2015, provide that the premium charged to a member insurer for a category of insurance would be 2% of the net direct written premium, unless there are outstanding bonds, as specified, in which case the premium would not exceed 1% of the net direct written premium for any category of insurance for which the bond proceeds are being used to pay

claims and expenses. The bill would prohibit, once all the bonds issued pursuant to these provisions are redeemed, further initial special bond assessments from being levied or made. The bill would require that any premium adjustments applicable to the special bond assessments continue to be made and determined, and that any credits or charges that result from the premium adjustments be credited or charged to the workers' compensation assessments that the insurers are otherwise required to pay CIGA.

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

SECTION 1. Section 1063.5 of the Insurance Code is amended to read:

1063.5. Each time an insurer becomes insolvent then, to the extent necessary to secure funds for the association for payment of covered claims of that insolvent insurer and also for payment of reasonable costs of adjusting the claims, the association shall collect premium payments from its member insurers sufficient to discharge its obligations. The association shall allocate its claim payments and costs, incurred or estimated to be incurred, to one or more of the following categories: (a) workers' compensation claims; (b) homeowners' claims, and automobile claims, which shall include: automobile material damage, automobile liability (both personal injury and death and property damage), medical payments and uninsured motorist claims; and (c) claims other than workers' compensation, homeowners', and automobile, as above defined. Separate premium payments shall be required for each category. The premium payments for each category shall be used to pay the claims and costs allocated to that category. The rate of premium charged shall be a uniform percentage of net direct written premium in the preceding calendar year applicable to that category. The rate of premium charges to each member in the appropriate categories shall initially be based on the written premium of each insurer as shown in the latest year's annual financial statement on file with the commissioner. The initial premium shall be adjusted by applying the same rate of premium charge as initially used to each insurer's written premium as shown on the annual statement for the second year following the year on which the initial premium charge was based. The difference between the initial premium charge and the adjusted premium charge shall be charged or

credited to each member insurer by the association as soon as practical after the filing of the annual statements of the member insurers with the commissioner for the year on which the adjusted premium is based. Any credit due in a specific category to a member insurer as a result of the adjusted premium calculation may be refunded to the member insurer at the discretion of the association if the member insurer has agreed with the commissioner to no longer write insurance in that category but has not withdrawn from the state and surrendered its certificate of authority. However, in the case of an insurer that was a member insurer when the initial premium charge was made and that paid the initial assessment but is no longer a member insurer at the time of the adjusted premium charge by reason of its insolvency or its withdrawal from the state and surrender of its certificate of authority to transact insurance in this state, any credit accruing to that insurer shall be refunded to it by the association. “Net direct written premiums” shall mean the amount of gross premiums, less return premiums, received in that calendar year upon business done in this state, other than premiums received for reinsurance. In cases of a dispute as to the amount of the net direct written premium between the association and one of its members the written decision of the commissioner shall be final. The premium charged to any member insurer for any of the three categories or a category established by the association shall not be more than 2 percent of the net direct premium written in that category in this state by that member per year, starting on January 1, 2003, until December 31, 2007, and thereafter shall be 1 percent per year, until January 1, 2015. Commencing January 1, 2015, the premium charged to any member insurer for any of the three categories or a category established by the association shall not be more than 2 percent of the net direct written premium unless there are bonds outstanding that were issued pursuant to Article 14.25 (commencing with Section 1063.50) or Article 14.26 (commencing with Section 1063.70). If bonds issued pursuant to either article are outstanding, the premium charged to a member insurer for the category for which the bond proceeds are being used to pay claims and expenses shall not be more than 1 percent of the net direct written premium for that category. The association may exempt or defer, in whole or in part, the premium charge of any member insurer, if the premium charge would cause the member insurer’s financial statement to reflect

an amount of capital or surplus less than the minimum amounts required for a certificate of authority by any jurisdiction in which the member insurer is authorized to transact insurance. However, during the period of deferment, no dividends shall be paid to shareholders or policyholders by the company whose premium charge was deferred. Deferred premium charges shall be paid when the payment will not reduce capital or surplus below required minimums. These payments shall be credited against future premium charges to those companies receiving larger premium charges by virtue of the deferment. After all covered claims of the insolvent insurer and expenses of administration have been paid, any unused premiums and any reimbursements or claims dividends from the liquidator remaining in any category shall be retained by the association and applied to reduce future premium charges in the appropriate category. However, an insurer which ceases to be a member of the association, other than an insurer that has become insolvent or has withdrawn from the state and has surrendered its certificate of authority following an initial assessment that is entitled to a refund based upon an adjusted assessment as provided above in this section, shall have no right to a refund of any premium previously remitted to the association. The commissioner may suspend or revoke the certificate of authority to transact business in this state of a member insurer which fails to pay a premium when due and after demand has been made.

Interest at a rate equal to the current federal reserve discount rate plus 2 ½ percent per annum shall be added to the premium of any member insurer which fails to submit the premium requested by the association within 30 days after the mailing request. However, in no event shall the interest rate exceed the legal maximum.

SEC. 2. Section 1063.74 of the Insurance Code is amended to read:

1063.74. (a) Notwithstanding any other limits on assessments, CIGA shall have the authority to levy upon member insurers special bond assessments in the amount necessary to pay the principal of and interest on the bonds, and to meet other requirements established by agreements relating to the bonds. The assessments shall be collected only from the member insurers providing workers' compensation insurance, in the same manner as separate premium payments are used to pay the claims and costs allocated

to that category pursuant to Section 1063.5. Special bond assessments made pursuant to this section shall also be subject to the surcharge provisions in Sections 1063.14 and 1063.145.

(b) Notwithstanding any other law, after all bonds issued pursuant to this article have been redeemed, no further initial special bond assessments shall be levied or made. Any premium adjustments called for and described in Section 1063.5, as applied to special bond assessments initially charged, shall continue to be made and determined. Any credits or charges that result from the premium adjustments on the special bond assessments shall be credited or charged to the assessments called for and described in Section 1063.5.

(c) In addition to the special bond assessments provided for in this section, the board in its discretion and subject to other obligations of the association, may utilize current funds of CIGA, premium assessments made under Section 1063.5, and advances or dividends received from the liquidators of insolvent insurers to pay the principal and interest on any bonds issued at the board's request and shall utilize, to the extent feasible, the recoveries from the liquidators of the estates of insolvent workers' compensation carriers to pay bonds issued at the board's request to fund workers' compensation claims.

Approved _____, 2014

Governor