

**ASSEMBLY BILL**

**No. 17**

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**Introduced by Assembly Member McCarty**

August 27, 2015

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An act to add Section 1396.6 to, and to repeal Section 1396.5 of, the Health and Safety Code, and to amend Section 742 of the Insurance Code, relating to health insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 17, as introduced, McCarty. Health insurance: prohibition on health insurance sales: health care service plans.

Existing law, the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene), provides for the licensure and regulation of health care service plans by the Department of Managed Health Care and makes a willful violation of the act a crime. Under existing law, a person who transacts disability insurance without a valid and unrevoked certificate of authority from the Insurance Commissioner is generally guilty of a misdemeanor. Under existing law, a nonprofit hospital corporation regulated under Knox-Keene that substantially indemnified subscribers and enrollees and was operating in 1965 under specified provisions of the Insurance Code enjoys the privileges that would have been available had it been registered under the Knox-Mills Health Plan Act and applied for a license under Knox-Keene in 1976.

This bill would repeal the latter provision. The bill would further prohibit an entity licensed under Knox-Keene from offering, marketing, or selling health insurance, whether issued on a group or individual basis, to an existing or new customer. By expanding the scope of an existing crime, the bill would impose a state-mandated local program.

Under existing law, a person or other entity that provides coverage in this state for medical, surgical, chiropractic, physical therapy, speech pathology, audiology, professional mental health, dental, hospital, or optometric services, whether by direct payment, reimbursement, or otherwise, and that enters into an arrangement or contract with, or underwrites, a preferred provider organization or specified arrangement, is subject to the jurisdiction of the Department of Insurance. Under existing law, a person or entity subject to regulation under Knox-Keene is not subject to the jurisdiction of the department.

This bill would delete the latter provision that excludes a person or entity subject to regulation under Knox-Keene from the jurisdiction of the department.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
 State-mandated local program: yes.

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

- 1 SECTION 1. Section 1396.5 of the Health and Safety Code is
- 2 repealed.
- 3 ~~1396.5.—A nonprofit hospital corporation which substantially~~
- 4 ~~indemnified subscribers and enrollees and was operating in 1965~~
- 5 ~~under Chapter 11A (commencing with Section 11490) of Part 2~~
- 6 ~~of Division 2 of the Insurance Code and which is regulated under~~
- 7 ~~the Knox-Keene Health Care Service Plan Act shall enjoy the~~
- 8 ~~privileges under the act which would have been available to it had~~
- 9 ~~it been registered under the Knox-Mills Health Plan Act and~~
- 10 ~~applied for a license under the Knox-Keene Health Care Service~~
- 11 ~~Plan Act in 1976.~~
- 12 SEC. 2. Section 1396.6 is added to the Health and Safety Code,
- 13 to read:
- 14 1396.6. An entity licensed under this chapter shall not offer,
- 15 market, or sell health insurance, as defined in subdivision (b) of
- 16 Section 106 of the Insurance Code, including, but not limited to,
- 17 a preferred provider organization or arrangement described in

1 Section 10133 of the Insurance Code, whether issued on a group  
2 or individual basis, to an existing or new customer.

3 SEC. 3. Section 742 of the Insurance Code is amended to read:

4 742. (a) ~~Any~~ A person or other entity that provides coverage  
5 in this state for medical, surgical, chiropractic, physical therapy,  
6 speech pathology, audiology, professional mental health, dental,  
7 hospital, or optometric services, whether this coverage is by direct  
8 payment, reimbursement, or otherwise, and that enters into an  
9 arrangement or contract with, or underwrites, a preferred provider  
10 organization or arrangement subject to Section 10133 is subject  
11 to the jurisdiction of the Department of Insurance.

12 (b) ~~Any person or entity subject to regulation under Chapter 2.2~~  
13 ~~(commencing with Section 1340) of Division 2 of the Health and~~  
14 ~~Safety Code shall not be subject to this section.~~

15 SEC. 4. No reimbursement is required by this act pursuant to  
16 Section 6 of Article XIII B of the California Constitution because  
17 the only costs that may be incurred by a local agency or school  
18 district will be incurred because this act creates a new crime or  
19 infraction, eliminates a crime or infraction, or changes the penalty  
20 for a crime or infraction, within the meaning of Section 17556 of  
21 the Government Code, or changes the definition of a crime within  
22 the meaning of Section 6 of Article XIII B of the California  
23 Constitution.