

AMENDED IN SENATE AUGUST 22, 2016

AMENDED IN SENATE AUGUST 16, 2016

AMENDED IN SENATE JUNE 28, 2016

AMENDED IN SENATE JUNE 13, 2016

AMENDED IN ASSEMBLY APRIL 28, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 1922

Introduced by Assembly Member Daly

February 11, 2016

An act to amend, repeal, and add Sections 11658 and 11658.5 of the Insurance Code, relating to workers' compensation insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 1922, as amended, Daly. Workers' compensation policies: ancillary agreements.

Existing law prohibits a workers' compensation insurance policy or endorsement from being issued by an insurer unless the insurer files a copy of the form or endorsement with a rating organization and 30 days have expired from the date the form or endorsement is received by the Insurance Commissioner from the rating organization without notice from the commissioner, unless the commissioner gives written approval of the form or the endorsement prior to that time.

This bill would prohibit an ancillary agreement, as defined, to a workers' compensation insurance policy from being issued by an insurer to a California employer, as defined, unless the insurer files a copy of the ancillary agreement with a rating organization and 30 days have

expired from the date the ancillary agreement is received by the commissioner from the rating organization without notice from the commissioner unless the commissioner gives written approval of the ancillary agreement prior to that time. The prohibition would not apply to an ancillary agreement between an insurer and a California employer issued in conjunction with a workers' compensation policy or endorsement that contains a deductible obligation or retrospectively rated loss limitation and meets specified criteria. The bill would authorize an insurer to use such an ancillary agreement and would require an insurer to submit a copy of that ancillary agreement to the commissioner within 30 days of issuing the ancillary agreement. The bill would provide that the terms and conditions of a workers' compensation policy and any endorsements take precedence over the provisions contained in an ancillary agreement in the case of an inconsistency or conflict between the policy or endorsement and the ancillary agreement. The bill would make additional changes relating to collateral and security agreements, as defined. The changes made by the bill would apply to ancillary agreements issued or renewed on or after January 1, 2017. The bill would also make conforming changes.

The changes made by the bill would apply only until January 1, 2022.

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

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

1 SECTION 1. Section 11658 of the Insurance Code is amended
2 to read:
3 11658. (a) A workers' compensation insurance policy or
4 endorsement shall not be issued by an insurer to any person in this
5 state unless the insurer files a copy of the form or endorsement
6 with the rating organization pursuant to subdivision (e) of Section
7 11750.3 and 30 days have expired from the date the form or
8 endorsement is received by the commissioner from the rating
9 organization without notice from the commissioner, unless the
10 commissioner gives written approval of the form or endorsement
11 prior to that time.
12 (b) (1) An ancillary agreement shall not be issued by an insurer
13 to a California employer unless the insurer files a copy of the
14 ancillary agreement with the rating organization pursuant to
15 subdivision (e) of Section 11750.3 and 30 days have expired from

1 the date the ancillary agreement is received by the commissioner
2 from the rating organization without notice from the commissioner
3 unless the commissioner gives written approval of the ancillary
4 agreement prior to that time.

5 (2) (A) Subdivision (a) and paragraph (1) of this subdivision
6 do not apply to an ancillary agreement between an insurer and a
7 California employer issued in conjunction with a workers'
8 compensation policy or endorsement that contains a deductible
9 obligation or retrospectively rated loss limitation equal to or greater
10 than two hundred fifty thousand dollars (\$250,000), provided that,
11 for an endorsement containing a deductible obligation, the
12 endorsement complies with the requirements of subdivision (e) of
13 Section 11735, or, for a retrospectively rated policy, is contained
14 in an endorsement filed by a rating organization pursuant to
15 Sections 11750.3 and 11753 and approved by the commissioner,
16 and the California employer meets at least three of the following
17 criteria:

18 (i) Is represented by a broker for negotiations regarding the
19 ancillary agreement and either has a full-time risk manager
20 involved in the evaluation of an ancillary agreement or is
21 represented by counsel during negotiations regarding an ancillary
22 agreement.

23 (ii) Has 500 or more employees.

24 (iii) Has an annual nationwide payroll in excess of twenty
25 million dollars (\$20,000,000).

26 (iv) Has a workers' compensation manual standard premium
27 on a countrywide basis in excess of one million dollars
28 (\$1,000,000).

29 (B) Paragraph (1) controls, and this paragraph does not apply
30 to, an ancillary agreement between an insurer and a California
31 employer that is either of the following:

32 (i) Issued pursuant to a coemployment arrangement, as defined
33 in subdivision (g).

34 (ii) Negotiated, managed, or administered, in whole or in part,
35 by a managing general agent (MGA), as defined in subdivision
36 (c) of Section 769.81.

37 (3) An ancillary agreement shall not do either of the following:

38 (A) Amend or revise the coverage provided, *any cancellation*
39 *provision, any dispute resolution agreement, any premium or other*
40 *costs*, or the benefits payable, under a workers' compensation

1 policy unless it is filed and approved in accordance with this
2 section.

3 (B) Include charges or costs as allocated loss adjustment
4 expenses that are not defined as allocated loss adjustment expenses
5 in the California Workers' Compensation Uniform Statistical
6 Reporting Plan - 1995, as identified in Section 2318.6 of Title 10
7 of the California Code of Regulations and any subsequent revisions,
8 unless the ancillary agreement is filed and approved in accordance
9 with this section.

10 (4) The terms and conditions of a workers' compensation policy
11 and any endorsements shall take precedence over the provisions
12 contained in an ancillary agreement if there is an inconsistency or
13 a conflict between the policy or endorsement and the ancillary
14 agreement.

15 (5) Contemporaneously with any written quote to provide
16 workers' compensation coverage to a California employer, the
17 insurer shall provide to the insurance agent or broker for the
18 employer a draft of any ancillary agreement that the insurer
19 reasonably expects to require the employer to sign, together with
20 a notice that the terms of the ancillary agreement are negotiable
21 between the insurer and the employer.

22 (6) An insurer may use and shall subsequently notify the
23 insurance commissioner of an ancillary agreement described in
24 paragraph (2) by providing a copy of the ancillary agreement to
25 the commissioner within 30 days of the insurer issuing the ancillary
26 agreement. The ancillary agreement shall not be subject to filing
27 with the commissioner or rating organization or approval by the
28 commissioner, but it shall be subject to all other authority granted
29 to the commissioner under law.

30 (7) An ancillary agreement that is described in paragraph (2)
31 shall include language stating that the ancillary agreement has not
32 been filed with the rating organization or filed with, or approved
33 by, the commissioner.

34 (8) This subdivision applies to ancillary agreements issued or
35 renewed on or after January 1, 2017.

36 (c) If the commissioner notifies the insurer that a policy form,
37 endorsement, or ancillary agreement does not comply with the
38 requirements of law, specifying the reasons for his or her opinion,
39 it is unlawful for the insurer to issue any policy form, endorsement,
40 or ancillary agreement in that form.

1 (d) The withdrawal of a policy form, endorsement, or ancillary
2 agreement by the commissioner pursuant to this section shall not
3 affect the status of the policyholder as having secured payment
4 for compensation or affect the substitution of the insurer for the
5 policyholder in workers' compensation proceedings as set forth
6 in the provisions of Chapter 4 (commencing with Section 3700)
7 of Part 1 of Division 4 of the Labor Code during the period of time
8 in which the policy form, endorsement, or ancillary agreement
9 was in effect.

10 (e) The terms and provisions of collateral and security
11 agreements shall be negotiated contemporaneously with the
12 inception or renewal of the underlying policy, and any revisions
13 or additions to those terms subsequent to the inception or renewal
14 of the policy shall be mutually agreed upon by the parties.

15 (f) This section does not apply to limited policies submitted for
16 approval to the commissioner pursuant to Section 11657.

17 (g) For purposes of this section, the following definitions apply:

18 (1) (A) "Ancillary agreement" means an agreement that is a
19 supplementary writing or contract relating to a policy or
20 endorsement form that adds to, subtracts from, or is inconsistent
21 with the obligations of either the insured or the insurer under an
22 insurance policy or endorsement.

23 (B) "Ancillary agreement" does not include any of the following:

24 (i) Limiting and restricting endorsements.

25 (ii) Customized limiting and restricting endorsements.

26 (iii) Collateral and security agreements.

27 (2) "California employer" means an employer whose principal
28 place of business is in California and whose California payroll
29 constitutes the majority of the employer's payroll for purposes of
30 determining premium under the policy.

31 (3) "Coemployment arrangement" means any arrangement,
32 under contract or otherwise, whereby an entity utilizes the services
33 of a third party to provide workers or human resources services
34 for a fee or other compensation, including, but not limited to:

35 (A) A professional employer organization.

36 (B) A leasing employer, as defined in Section 606.5 of the
37 Unemployment Insurance Code.

38 (C) A temporary services employer, as defined in Section 606.5
39 of the Unemployment Insurance Code.

1 (D) Any employer, regardless of name or form of organization,
2 that is in the business of providing workers to other employers.
3 (4) “Collateral and security agreement” means an agreement
4 between a California employer and an insurer under a large
5 deductible program, large risk-rating program, or retrospectively
6 rated program that relates to payments and reimbursements that
7 the insured is contractually obligated to make to the insurer and
8 that includes one or more of the following terms or provisions:
9 (A) The timing, method, and conditions for making payments
10 to the insurer for amounts imposed by any state or regulatory taxing
11 authority that are made on the insured’s behalf.
12 (B) The timing, method, and conditions for funding, paying, or
13 reimbursing deductible or retrospectively rated amounts or other
14 policy-related charges due under a policy.
15 (C) The type and amount of collateral the insured is required to
16 post as security for its obligations.
17 (D) Payment due dates and transmittal information.
18 (E) Terms or provisions related to claims administration,
19 including the method for selecting a claims administrator.
20 (F) Termination and dispute resolution provisions applicable to
21 the collateral and security agreement.
22 (G) Terms of default under the collateral and security agreement.
23 (5) “Customized limiting and restricting endorsement” means
24 an endorsement unique to a specific policy used under the
25 following circumstances or for the following purposes:
26 (A) When the employer’s business is conducted in such a
27 manner that it is impossible or impracticable to determine the
28 nature, scope, and extent of employment covered by the insurer.
29 (B) To prevent the performance of work in such an extremely
30 hazardous manner or under such hazardous conditions as would
31 reflect a reckless disregard by the employer for the welfare of its
32 employees.
33 (C) To prevent the issuance of an unrestricted policy if it would
34 encourage an operation that is contrary to law or to the rules of a
35 regulatory agency.
36 (6) “Limiting and restricting endorsement” means an
37 endorsement that excludes from coverage some portion of workers’
38 compensation liability for which the employer is required to secure
39 payment pursuant to the Labor Code that, after approval of the

1 endorsement by the Insurance Commissioner, may be endorsed to
2 a workers' compensation policy.

3 (h) This section shall remain in effect only until January 1, 2022,
4 and as of that date is repealed, unless a later enacted statute, that
5 is enacted before January 1, 2022, deletes or extends that date.

6 SEC. 2. Section 11658 is added to the Insurance Code, to read:

7 11658. (a) A workers' compensation insurance policy or
8 endorsement shall not be issued by an insurer to any person in this
9 state unless the insurer files a copy of the form or endorsement
10 with the rating organization pursuant to subdivision (e) of Section
11 11750.3 and 30 days have expired from the date the form or
12 endorsement is received by the commissioner from the rating
13 organization without notice from the commissioner, unless the
14 commissioner gives written approval of the form or endorsement
15 prior to that time.

16 (b) If the commissioner notifies the insurer that the filed form
17 or endorsement does not comply with the requirements of law,
18 specifying the reasons for his or her opinion, it is unlawful for the
19 insurer to issue any policy or endorsement in that form.

20 (c) The withdrawal of a policy form or endorsement by the
21 commissioner pursuant to this section shall not affect the status of
22 the policyholder as having secured payment for compensation or
23 affect the substitution of the insurer for the policyholder in workers'
24 compensation proceedings as set forth in the provisions of Chapter
25 4 (commencing with Section 3700) of Part 1 of Division 4 of the
26 Labor Code during the period of time in which the policy form or
27 endorsement was in effect.

28 (d) This section does not apply to limited policies submitted for
29 approval to the commissioner pursuant to Section 11657.

30 (e) This section shall become operative on January 1, 2022.

31 SEC. 3. Section 11658.5 of the Insurance Code is amended to
32 read:

33 11658.5. (a) (1) An insurer that intends to use a dispute
34 resolution or arbitration agreement to resolve disputes arising in
35 California out of a workers' compensation insurance policy,
36 endorsement, ancillary agreement, or collateral and security
37 agreement, as defined in Section 11658, issued to a California
38 employer shall disclose to the employer, contemporaneously with
39 any written quote that offers to provide insurance coverage, that
40 choice of law and choice of venue or forum may be a jurisdiction

1 other than California and that these terms are negotiable between
2 the insurer and the employer. The disclosure shall be signed by
3 the employer as evidence of receipt if the employer accepts the
4 offer of coverage from that insurer.

5 (2) After compliance with paragraph (1), a dispute resolution
6 or arbitration agreement may be negotiated by the insurer and the
7 employer before any dispute arises.

8 (b) Nothing in this section is intended to interfere with any
9 authority granted to the Insurance Commissioner under current
10 law.

11 (c) Failure by the insurer to observe the requirements of
12 subdivision (a) shall result in a default to California as the choice
13 of law and forum for resolution of disputes arising in California.

14 (d) For purposes of this section, a “California employer” means
15 an employer whose principal place of business is in California and
16 whose California payroll constitutes the majority of the employer’s
17 payroll for purposes of determining premium under the policy.

18 (e) This section shall remain in effect only until January 1, 2022,
19 and as of that date is repealed, unless a later enacted statute, that
20 is enacted before January 1, 2022, deletes or extends that date.

21 SEC. 4. Section 11658.5 is added to the Insurance Code, to
22 read:

23 11658.5. (a) (1) An insurer that intends to use a dispute
24 resolution or arbitration agreement to resolve disputes arising in
25 California out of a workers’ compensation insurance policy or
26 endorsement issued to a California employer shall disclose to the
27 employer, contemporaneously with any written quote that offers
28 to provide insurance coverage, that choice of law and choice of
29 venue or forum may be a jurisdiction other than California and
30 that these terms are negotiable between the insurer and the
31 employer. The disclosure shall be signed by the employer as
32 evidence of receipt if the employer accepts the offer of coverage
33 from that insurer.

34 (2) After compliance with paragraph (1), a dispute resolution
35 or arbitration agreement may be negotiated by the insurer and the
36 employer before any dispute arises.

37 (b) Nothing in this section is intended to interfere with any
38 authority granted to the Insurance Commissioner under current
39 law.

- 1 (c) Failure by the insurer to observe the requirements of
2 subdivision (a) shall result in a default to California as the choice
3 of law and forum for resolution of disputes arising in California.
4 (d) For purposes of this section, a “California employer” means
5 an employer whose principal place of business is in California and
6 whose California payroll constitutes the majority of the employer’s
7 payroll for purposes of determining premium under the policy.
8 (e) This section shall become operative on January 1, 2022.

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