



End of Year Wrap-up & Compliance Report

December 2009

2009 Government Relations Wrap-Up

The California Legislature recessed the 2009-2010 Legislative Session early in the morning on September 12. There were 3052 bills introduced in 2009, but only 1,108 of the bills made it to the Governor's desk. More specifically, the Governor signed roughly 475 and vetoed 229 bills in the final hours leading up to the October 11th signature deadline.

The fate of the over 700 bills sent to the Governor at the end of session hung in the balance late Sunday as a result of the Legislature's inability to reach a compromise on a plan to address the State's water crisis. Governor Schwarzenegger had initially threatened to veto all of the bills on his desk if a deal was not reached; however, he backed down in the final hours citing the progress the Legislature had made in its discussions. The Governor has since called a Special Session on the issue, in addition to those already underway for education and tax reform.

In the end, 2009 was a challenging year on all fronts. The outlook for the year was dampened from the start as the State faced a roughly \$40 billion budget deficit. The Legislature ultimately had to take two passes at the budget deficit in order to resolve it – February and July – yet despite the actions, the State still faces out year deficits in the billions. For FY 2010-2011 alone, finance experts are already forecasting a \$7.4 billion deficit. To add to the issue, the State Controller has indicated that decreasing tax receipts will likely push the deficit higher with the state already about \$1 billion short of what was anticipated in the FY 2009-2010 budget package.

What is important to note for agents and brokers is that the Governor's Emergency Response Initiative (ERI) was not included in the budget deals and it was rejected on the Senate floor during the final hours of the session. The ERI would have required a surcharge on residential and commercial property policies to fund California Emergency Management Agency (CalEMA), Department of Forestry and Fire Protection and the Military Department for emergency response efforts. Every admitted insurer would be responsible for collecting the surcharge, which would be identified on each policy with respect to the property portion of the commercial or residential fire and multi-peril insurance. The 4.8% assessment was estimated to raise approximately \$480 million a year.

While the Governor is expected to continue to push for the ERI in future budget negotiations, it appears as though a majority of Legislators are still not willing to support it. However, opinions may change in 2010 based on the State's fiscal situation.

For the insurance industry, 2009 was a very successful year in the Capitol thanks to the Stranger Originated Life Insurance (STOLI) bill being signed and the defeat of numerous other measure that were opposed by NAIFA-California.

COMPLIANCE REPORT – NEW LAWS FOR 2010

AB 76 (Yamada): Extends the sunset of the **Life and Annuity Consumer Protection Program**, which provides for a fee of \$1 on every new life and annuity product over \$15,000 sold in California. The fee supports consumer protection activities related to life and annuity products. The bill also requires the DOI to report annually information relating to the program's activities.

AB 108 (Hayashi): Prohibits a **health insurer or health care plan** from rescinding a contract or policy due to any omission or misrepresentation in the application after 24 months following issuance.

AB 119 (Jones): Prohibits **health insurers and health care plans** from charging a premium or price differential from health care coverage because of the sex of the insured or subscriber.

AB 299 (Assembly Insurance Committee): Among other things, the bill requires the **Department of Insurance (DOI)** to remove or clarify each document, pleading or order that is posted on its website when an enforcement action against a licensee is withdrawn.

AB 328 (Calderon): Authorizes insurers to send certain **insurance notices** to policyholders electronically.

AB 389 (Saldana): Specifies that increases for **pre-2002 long-term care policies** primarily to policyholder benefits and permits the DOI's actuaries to review long-term care rate change requests.

AB 800 (Duvall): Among other things, the bill requires individuals and business entities applying for, or renewing, licenses to **conduct their business with the DOI on-line**. The bill also authorizes the DOI to send renewal notices to its licensees electronically.

AB 1200 (Hayashi): Clarifies information that insurers may provide claimants regarding **auto body repair services** and benefits available to claimants during the claims process.

SB 98 (Calderon): Establishes a new regulatory scheme for the life settlement industry and expressly prohibits the practice of **STOLI transactions**. The bill requires new consumer disclosures, protects insured's medical records, requires confidentiality of sensitive financial information and establishes licensing and disclosure requirements for all parties involved in life settlement transactions.

If you have any questions regarding any of the topics mentioned in this report, or others not mentioned, please contact Shari McHugh at 916/440-0850. Thank you!