



April 16, 2014

To: The Honorable Henry T. Perea, Chair
The Honorable Curt Hagman, Vice Chair
Members, Assembly Insurance Committee

From: American Insurance Association
Association of California Insurance Companies
Association of California Life and Health Insurance Companies
Independent Insurance Agents and Brokers of California
National Association of Mutual Insurance Companies
Pacific Association of Domestic Insurance Companies
Personal Insurance Federation of California

Subject: AB 1804 (Perea) Insurance: Lapse of Notice – **Oppose**
Assembly Insurance Committee Hearing, April 23, 2014

The Trade Associations listed above who collectively represent the majority of all insurance policies sold in California respectfully oppose AB 1804 (Perea). While we appreciate the goal of the author to protect individuals against an unintended lapse of their insurance coverage and share the same goal of helping policyholders keep their valuable insurance coverage in place, the bill in its current form would be costly, over burdensome, and is not consistent with other approaches around the country.

Beginning in July of 2015, AB 1804 as currently amended would prevent the issuance of new or renewed insurance policies until the applicant has been given the right to designate at least one individual, in addition to the applicant, to receive the notice of lapse, termination, expiration, nonrenewal, or cancellation of the policy for nonpayment of the premium.

The bill would also prohibit an insurance policy from lapsing or being terminated for nonpayment of the premium unless the insurer, at least 10 days prior to the effective date of the lapse, termination, expiration, nonrenewal, or cancellation gives notice to the insured and to the individual or individuals designated, if any, at the address provided by the insured for these purposes.

We have a number of issues with the bill as drafted:

- We have an issue with the signature and retention aspects of the bill, because we think that AB 1747 (Feuer, 2012) provides a perfect model for this legislation.
- The definition of applicable policies should be addressed.
- The bill references the option of 'multiple' designees – we would prefer one designee. Multiple designees is overly burdensome when one considers the magnitude of additional notices being generated and requiring proof of mail with one for every policy, let alone multiple.
- In the other four states that have similar legislation, there is an age limitation (typically for seniors).
- The bill includes policy expirations. Insurers are currently not required to send notice to insureds that a policy expires at the end of a term.

- The bill would require insurers to notify the insured at least every two years of their selection regarding the secondary contact. This again adds mail and administrative costs.
- The legislation mandates that we send the notice by first class mail, which would cause insurers to incur additional costs.
- Contemplating a new notice requirement for health policies is not needed. AB 2470 from 2010, and subsequent CDI regulations, already outline protections for consumers regarding cancellation and rescission requirements for health insurance products.

There is no demonstrated need for AB 1804. Insurers are already required to notify lien holders (for property coverage) and banks (for auto coverage) before a policy lapses. Today, most if not all insurers will notify additional insureds of policy lapses at the insured's request. If a potential lapse is unintended and insurers can increase the likelihood of receiving a premium payment and maintaining a policy in force, why wouldn't a company send a notice to another insured?

Without an explanation for the necessity of the bill from the proponents, we believe a better solution would be to require that insurers make this option "available to" consumers as opposed to requiring a "mandatory offer." We question whether a new law requiring another legal requirement to provide notifications to insureds is beneficial. If anything, the requirement should be optional and require a onetime notice.

Furthermore, since the number of consumers who are likely to avail themselves of this secondary notice designee option is likely to be quite small, we feel it would make sense in this case if the bill's sponsor used its website and media efforts to educate consumers about this new option available to insurance consumers, at no cost to insurers and consumers.

The administrative costs of implementing AB 1804 will be burdensome enough for standard insurance companies, particularly as it relates to policies that are renewed annually, but the impact on non-standard companies should also be considered. In many circumstances they may be writing a three-month policy so their costs could be four times higher than a standard insurance company.

Non-standard customers have policies that lapse more frequently than more standard/preferred auto customers, and more than other lines of business (such as homeowner's and life). The non-standard companies would incur additional mail costs to send cancellation notices to individuals other than the insured. Ultimately, these additional costs would be passed on to consumers.

AB 1804 could result in increased administrative, postage and record retention expenses for insurers and ultimately consumers and could subject insurers to greater liability. Therefore, the above-signed Trade Associations are **opposed to AB 1804 Insurance: Lapse of Notice by Assemblymember Perea.**

cc: Assemblymember Henry T. Perea, Author
 Mark Rakich, Principal Consultant, Assembly Insurance Committee
 Kevin Hanley, Consultant, Assembly Republican Caucus
 Gareth Elliot, Secretary of Legislative Affairs, Office of the Governor
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