

DEPARTMENT OF INSURANCE

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**NOTICE**

DATE: December 23, 2005
TO: All Admitted Insurers and Other Interested Parties
SUBJECT: AB 729 – New financial security requirements

Assembly Bill 729 (Koretz, Chapter 312, Statutes of 2005), was signed into law on September 22, 2005. Effective January 1, 2006, this bill makes the following changes affecting limited liability companies:

- Requires limited liability companies (LLC's) to provide the Commissioner with a certification of coverage (this form is set forth in AB 729) of security for claims against them in the form of errors and omissions (E&O) coverage or acceptable alternative security in an amount for each claim equal to \$100,000 multiplied by the number of licensees rendering professional services on behalf of the company, with a minimum required amount of \$500,000 (maximum coverage not to exceed \$5 million).
- Allows the Commissioner to summarily deny or decline to act upon an application for insurance for the issuance of a renewal of a license, or inactivate an existing license for failure to comply with the above-described financial security requirements.
- Allows the Commissioner to impose administrative penalties, including revocation of license, in connection with the filing of a false or misleading certification of coverage for purposes of demonstrating compliance with the above described financial security provisions.
- Permits a deductible as long as the insurer agrees by contract that it is ultimately responsible to cover the deductible and otherwise requires the licensee to post security for the deductible.
- Provides that if a policy of insurance is being used to demonstrate compliance with Section 1647.5 of the California Insurance Code, the policy cannot be non-renewed, cancelled or terminated without providing the Commissioner notice within ten calendar days.
- Permits the Commissioner to disclose on the California Department of Insurance website, and report to the National Association of Insurance Commissioners, the names and license numbers of those licensees whose licenses have been inactivated or who have been penalized due to noncompliance with the above described financial security provisions.

Additional information, including the "Certification of Coverage" form, can be accessed from our web site at www.insurance.ca.gov. Please leave a message at the Producer Licensing Bureau's Business Entity Voicemail number, (916) 492-3069 if you have any questions regarding this matter.