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INSURANCE CODE - INS

DIVISION 1. GENERAL RULES GOVERNING INSURANCE [100 - 1879.8] (*Division 1 enacted by Stats. 1935, Ch. 145.*)

PART 2. THE BUSINESS OF INSURANCE [680 - 1879.8] (*Part 2 enacted by Stats. 1935, Ch. 145.*)

CHAPTER 1. General Regulations [680 - 1113] (*Chapter 1 enacted by Stats. 1935, Ch. 145.*)

ARTICLE 14.26. California Insurance Guarantee Association Bond Funds [1063.70 - 1063.78] (*Heading of Article 14.26 amended by Stats. 2022, Ch. 408, Sec. 7.*)

1063.70. The California Insurance Guarantee Association is authorized to pay and discharge certain claims of insolvent insurers as defined in Section 1063.1 through the collection of premiums from its members, which amounts are limited by law and take time to assess and collect. This article provides for the ability of CIGA to request the issuance of bonds by the California Infrastructure and Economic Development Bank pursuant to Article 8 (commencing with Section 63049.6) of Chapter 2 of Division 1 of Title 6.7 of the Government Code to more expeditiously and effectively provide for the payment of covered claims that arise as a result of the insolvencies of insurers admitted to transact insurance in at least one of the categories described in paragraph (2) of subdivision (a) of Section 1063.5. The bonds are to be paid from the special bond assessments assessed by CIGA for those purposes and the other funds provided pursuant to Section 1063.74. Special bond assessments to repay bonds issued for payment of insurance benefits shall be assessed, to the extent necessary, for the respective category for which bonds are issued. It is a public purpose and in the best interest of the public health, safety, and general welfare of the residents of this state to provide for the issuance of bonds to pay claimants and policyholders having covered claims against insolvent insurers operating in this state.

(Amended by Stats. 2022, Ch. 408, Sec. 8. (AB 2154) Effective January 1, 2023.)

1063.71. (a) The terms “member insurer,” “insolvent insurer,” and “covered claims” have the meanings assigned those terms in Section 1063.1.

(b) “Bank” means the California Infrastructure and Economic Development Bank created pursuant to Article 1 (commencing with Section 63020) of Chapter 2, Division 1 of Title 6.7 of the Government Code.

(c) “Board” means the board of governors of CIGA.

(d) “Bonds” means bonds issued by the Bank pursuant to Article 8 (commencing with Section 63049.6) of Chapter 2 of Division 1 of Title 6.7 of the Government Code to provide funds for the payment of the covered claims and the adjusting and defense expenses relating to those claims that are issued at the request of the board pursuant to Section 1063.73.

(e) “Collateral” means the special bond assessments, the right of CIGA to be paid the special bond assessments, all revenues therefrom, the separate accounts of the Workers’ Compensation Bond Fund, the Homeowners’ and Automobile Bond Fund, and the Other Bond Fund into which special bond assessments are deposited, and the proceeds thereof.

(f) “CIGA” means the California Insurance Guarantee Association, established pursuant to Article 14.2 (commencing with Section 1063).

(g) “Commissioner” means the Insurance Commissioner.

(h) “Department” means the Department of Insurance.

(i) “Homeowners’ and Automobile Bond Fund” means the fund created pursuant to subdivision (b) of Section 1063.72.

(j) “Other Bond Fund” means the fund created pursuant to subdivision (c) of Section 1063.72.

(k) “Special bond assessment” means the premiums collected by CIGA pursuant to Section 1063.74.

(l) “Workers’ Compensation Bond Fund” means the fund created pursuant to subdivision (a) of Section 1063.72.

(Amended by Stats. 2022, Ch. 408, Sec. 9. (AB 2154) Effective January 1, 2023.)

1063.72. (a) The Workers’ Compensation Bond Fund is hereby created.

(1) Proceeds from the sale of bonds with respect to the workers' compensation category described in subparagraph (A) of paragraph (2) of subdivision (a) of Section 1063.5 shall be deposited in a separate account in the Workers' Compensation Bond Fund. Only CIGA, and, with respect to payment of the bonds, the trustee for the bonds, shall have the ability to authorize disbursements from the separate account within the Workers' Compensation Bond Fund.

(2) Special bond assessments levied pursuant to Section 1063.74 with respect to the workers' compensation category shall be deposited in a separate account in the Workers' Compensation Bond Fund and shall not be commingled with any other moneys. Only the trustee for the bonds shall have the ability to authorize disbursements from this separate account within the Workers' Compensation Bond Fund, and CIGA shall have no right or authority to authorize disbursements from this separate account.

(3) The Workers' Compensation Bond Fund shall be maintained with the trustee for the bonds. Following payment or provision for payment of the bonds, amounts in the Workers' Compensation Bond Fund shall be transferred to the fund that is designated in the indenture for the bonds.

(4) All money in the Workers' Compensation Bond Fund and all special bond assessments levied pursuant to Section 1063.74 with respect to the workers' compensation category shall be used by CIGA for the exclusive purpose of carrying out the purposes of this part. Notwithstanding any other law, the Workers' Compensation Bond Fund is not a state fund and shall not be subject to the rules or procedures of any fund in the State Treasury, and application of the fund shall not be subject to the supervision or budgetary approval of any officer or division of state government.

(5) CIGA and the trustee for the bonds may, as necessary or convenient to the accomplishment of any other purpose under this article, divide the Workers' Compensation Bond Fund into separate accounts.

(b) The Homeowners' and Automobile Bond Fund is hereby created.

(1) Proceeds from the sale of bonds with respect to the homeowners' and automobile category described in subparagraph (B) of paragraph (2) of subdivision (a) of Section 1063.5 shall be deposited in a separate account in the Homeowners' and Automobile Bond Fund. Only CIGA, and, with respect to payment of the bonds, the trustee for the bonds, shall have the ability to authorize disbursements from the separate account within the Homeowners' and Automobile Bond Fund.

(2) Special bond assessments levied pursuant to Section 1063.74 with respect to the homeowners' and automobile category shall be deposited in a separate account in the Homeowners' and Automobile Bond Fund and shall not be commingled with any other moneys. Only the trustee for the bonds shall have the ability to authorize disbursements from this separate account within the Homeowners' and Automobile Bond Fund, and CIGA shall have no right or authority to authorize disbursements from this separate account.

(3) The Homeowners' and Automobile Bond Fund shall be maintained with the trustee for the bonds. Following payment or provision for payment of the bonds, amounts in the Homeowners' and Automobile Bond Fund shall be transferred to the fund that is designated in the indenture for the bonds.

(4) All money in the Homeowners' and Automobile Bond Fund and all special bond assessments levied pursuant to Section 1063.74 with respect to the homeowners' and automobile category shall be used by CIGA for the exclusive purpose of carrying out the purposes of this part. Notwithstanding any other law, the Homeowners' and Automobile Bond Fund is not a state fund and shall not be subject to the rules or procedures of any fund in the State Treasury, and application of the fund shall not be subject to the supervision or budgetary approval of any officer or division of state government.

(5) CIGA and the trustee for the bonds may, as necessary or convenient to the accomplishment of any other purpose under this article, divide the Homeowners' and Automobile Bond Fund into separate accounts.

(c) The Other Bond Fund is hereby created.

(1) Proceeds from the sale of bonds with respect to the other category described in subparagraph (C) of paragraph (2) of subdivision (a) of Section 1063.5 shall be deposited in a separate account in the Other Bond Fund. Only CIGA, and, with respect to payment of the bonds, the trustee for the bonds, shall have the ability to authorize disbursements from the separate account within the Other Bond Fund.

(2) Special bond assessments levied pursuant to Section 1063.74 with respect to the other category shall be deposited in a separate account in the Other Bond Fund and shall not be commingled with any other moneys. Only the trustee for the bonds shall have the ability to authorize disbursements from this separate account within the Other Bond Fund, and CIGA shall have no right or authority to authorize disbursements from this separate account.

(3) The Other Bond Fund shall be maintained with the trustee for the bonds. Following payment or provision for payment of the bonds, amounts in the Other Bond Fund shall be transferred to the fund that is designated in the indenture for the bonds.

(4) All money in the Other Bond Fund and all special bond assessments levied pursuant to Section 1063.74 with respect to the other category shall be used by CIGA for the exclusive purpose of carrying out the purposes of this part. Notwithstanding any other law, the Other Bond Fund is not a state fund and shall not be subject to the rules or procedures of any fund in the State Treasury, and application of the fund shall not be subject to the supervision or budgetary approval of any officer or division of state government.

(5) CIGA and the trustee for the bonds may, as necessary or convenient to the accomplishment of any other purpose under this article, divide the Other Bond Fund into separate accounts.

(Repealed and added by Stats. 2022, Ch. 408, Sec. 11. (AB 2154) Effective January 1, 2023.)

1063.73. In the event CIGA determines that the insolvency of one or more member insurers providing insurance in at least one of the categories described in paragraph (2) of subdivision (a) of Section 1063.5 will result in covered claim obligations in excess of CIGA's capacity to pay from current funds, the board, in its sole discretion, may by resolution request the Bank to issue bonds pursuant to Article 8 (commencing with Section 63049.6) of Chapter 2 of Division 1 of Title 6.7 of the Government Code to provide funds for the payment of the covered claims and the adjusting and defense expenses relating to those claims. Notwithstanding any other provision of law, CIGA is hereby authorized to borrow proceeds of the bonds to provide for those purposes. CIGA may request the Bank to issue bonds pursuant to Article 8 (commencing with Section 63049.6) of Chapter 2 of Division 1 of Title 6.7 of the Government Code. CIGA shall provide the commissioner with a copy of the request and the commissioner may, within 30 days of receipt of the request, modify, cancel, or require a delay in the requested issuance. The proceeds of bonds issued for any category of insurance benefits may be used by CIGA to reimburse funds advanced or temporarily loaned from other categories.

(Amended by Stats. 2022, Ch. 408, Sec. 12. (AB 2154) Effective January 1, 2023.)

1063.74. (a) Notwithstanding any other limits on assessments, CIGA shall have the authority to levy upon member insurers special bond assessments in the amount necessary to pay the principal of and interest on the bonds, and to meet other requirements established by agreements relating to the bonds. The assessments shall be collected only from the member insurers providing insurance in the category described in paragraph (2) of subdivision (a) of Section 1063.5 for which the bonds are issued, and shall be applied in the same manner as separate premium payments are used to pay the claims and costs allocated to that category pursuant to Section 1063.5. Special bond assessments made pursuant to this section shall also be subject to the surcharge provisions in Sections 1063.14 and 1063.145.

(b) Notwithstanding any other law, after all bonds issued pursuant to this article have been redeemed, no further initial special bond assessments shall be levied or made. Any premium adjustments called for and described in Section 1063.5, as applied to special bond assessments initially charged, shall continue to be made and determined. Any credits or charges that result from the premium adjustments on the special bond assessments shall be credited or charged to the assessments called for and described in Section 1063.5.

(c) In addition to the special bond assessments provided for in this section, the board in its discretion and subject to other obligations of the association, may utilize current funds of CIGA, premium assessments made under Section 1063.5, and advances or dividends received from the liquidators of insolvent insurers to pay the principal of and interest on any bonds issued at the board's request and shall utilize, to the extent feasible, the recoveries from the liquidators of the estates of insolvent insurers in the respective category of insurance to pay bonds issued at the board's request to fund the corresponding insurance claims in that category of insurance.

(Amended by Stats. 2022, Ch. 408, Sec. 13. (AB 2154) Effective January 1, 2023.)

1063.75. Bonds issued to provide funds for covered claim obligations for workers' compensation claims, homeowners' and automobile claims, as described in subparagraph (B) of paragraph (2) of subdivision (a) of Section 1063.5, and other claims, as described in subparagraph (C) of paragraph (2) of subdivision (a) of Section 1063.5, shall be issued in an aggregate principal amount outstanding for each category not to exceed at any one time one billion five hundred million dollars (\$1,500,000,000) for that category. Any bonds issued or issued to refund bonds shall not have a final maturity exceeding 20 years from the date of issuance. The bonds shall be issued at the request of CIGA, shall be in the form, shall bear the date or dates, and shall mature at the time or times as the indenture authorized by the request may provide. The bonds may be issued in one or more series, as serial bonds or as term bonds, or as a combination thereof, and, notwithstanding any other provision of law, the amount of principal of, or interest on, bonds maturing at each date of maturity need not be equal. The bonds shall bear interest at the rate or rates, variable or fixed or a combination thereof, be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment at the place or places within or without the state, be subject to the terms of redemption, contain the terms and conditions, and be secured by the covenants as the indenture may provide. The indenture may provide for the proceeds of the bonds and funds securing the bonds to be invested in any securities and investments, including investment agreements, as specified therein. CIGA may enter into or authorize any ancillary obligations or derivative agreements as it determines necessary or desirable to manage interest rate risk or security features related to the bonds. The bonds

shall be sold at public or private sale by the Treasurer at, above, or below the principal amount thereof, on the terms and conditions and for the consideration in the medium of payment that the Treasurer shall determine prior to the sale.

(Amended by Stats. 2022, Ch. 408, Sec. 14. (AB 2154) Effective January 1, 2023.)

1063.76. (a) The collateral shall be used solely for the purpose of paying the principal and redemption price of, and interest on, the bonds and any amounts owing by CIGA under contracts entered into pursuant to Section 1063.77, and shall not be used for any other purpose. Member insurers shall pay the special bond assessments directly to the trustee for the bonds. Any collateral in the possession of CIGA shall be held by CIGA in trust for the benefit of the trustee for the bonds.

(b) Upon the issuance of the first bond, the collateral shall be subject to a first priority statutory lien in favor of the trustee for the bonds, for the benefit of the holders of the bonds and the parties to the contracts entered into pursuant to Section 1063.77, to secure the payment of the principal and redemption price of, and interest on, the bonds and any amounts owing by CIGA under contracts entered into pursuant to Section 1063.77. This lien shall arise by operation of law automatically without any action on the part of CIGA, the bank, or any other person. This lien is a continuous lien on all collateral effective from the time the first bond is issued, whether or not a particular item of collateral exists at the time of the issuance. From the time the first bond is issued, this lien shall be valid, effective, prior, perfected, binding, and enforceable against CIGA, its successors, purchasers of the collateral, creditors, and all others asserting rights in the collateral, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act. Upon default in the payment of the principal or redemption price of, or interest on, the bonds, or any amounts owing by CIGA under contracts entered into pursuant to Section 1063.77, the trustee for the bonds shall be entitled to foreclose or otherwise enforce this lien on the collateral.

(c) No person acting under any provision of law or principle of equity shall be permitted in any way to impede or in any manner interfere with (1) the full and timely payment of the principal and redemption price of, and interest on, the bonds and any amounts owing by CIGA under contracts entered into pursuant to Section 1063.77, or (2) the statutory lien created by this section and the full and timely application of the collateral to the payment of the principal and redemption price of, and interest on, the bonds and any amounts owing by CIGA under contracts entered into pursuant to Section 1063.77.

(d) None of the collateral shall be subject to garnishment, levy, execution, attachment, or other process, writ (including writ of mandate), or remedy in connection with the assertion or enforcement of any debt, claim, settlement, or judgment against the state, the department, the commissioner, the bank, CIGA, or the board, nor shall any of the collateral be subject to the claims of any creditor of the state, the department, the commissioner, the bank, CIGA, or the board. This paragraph shall not limit the rights or remedies of the trustee for the bonds, the holders of the bonds, or the parties to contracts entered into pursuant to Section 1063.77.

(e) As long as any bond is outstanding, CIGA shall not be subject to Article 14 (commencing with Section 1010) or Article 14.3 (commencing with Section 1064.1) of Chapter 1 of Part 2 of Division 1 of the Insurance Code.

(Added by Stats. 2003, Ch. 635, Sec. 7. Effective January 1, 2004.)

1063.77. CIGA is authorized to enter into those contracts or agreements with those banks, insurers, or other financial institutions or parties that it determines are necessary or desirable to improve the security and marketability of, or to manage interest rates or other risks associated with, the bonds issued pursuant to Article 8 (commencing with Section 63049.6) of Chapter 2 of Division 1 of Title 6.7 of the Government Code. Those contracts or agreements may contain an obligation to reimburse, with interest, any of those banks, insurers, or other financial institutions or parties for advances used to pay the purchase price of, or principal or interest on, the bonds or other obligations.

(Added by Stats. 2003, Ch. 635, Sec. 7. Effective January 1, 2004.)

1063.78. If the board requests the California Infrastructure and Economic Development Bank to issue bonds pursuant to Section 1063.70, the board shall report all of the following to the Assembly Committee on Insurance and the Senate Committee on Insurance within 60 days of the request, and annually thereafter while the bonds remain outstanding:

- (a) The amount of the bonds requested.
- (b) The reason for the requested bonds.
- (c) Details of covered claims obligations requiring the issuance of bonds.
- (d) Planned bond repayment assessments.

(Added by Stats. 2022, Ch. 408, Sec. 15. (AB 2154) Effective January 1, 2023.)