

2785.1500 FINANCIAL INTEGRITY.

Subpart 1. **Fidelity bond.** All contractors and individuals who handle pool funds or who will have authority to gain access to pool funds, including board members, must be covered by a fidelity bond. The bond must cover losses from dishonesty, robbery, forgery or alteration, misplacement, or mysterious and unexplainable disappearance. The amount of coverage for each occurrence must be \$300,000 or more. The pool must purchase a fidelity bond covering the required contractors and individuals, or submit separate proof of coverage for all required contractors and individuals not covered under the plan's bond.

Subp. 2. **Integrity of assets.** A pool's assets:

- A. must not be commingled with the assets of any member;
- B. must not be loaned to anyone for any purpose or used as security for a loan, except as permitted under subpart 5 for investments;
- C. must be employed solely for the purposes stated in the bylaws, and in compliance with parts 2785.0100 to 2785.1600 and related statutes; and
- D. must not be considered the property or right of any member or covered person, except:
 - (1) for benefits under the coverage documents;
 - (2) for dividends declared in accordance with part 2785.1100, subpart 5; and
 - (3) for a portion of the assets remaining after the plan's dissolution, in accordance with part 2785.0700, subpart 4.

Subp. 3. **Sources and uses of funds.** A pool may expend funds for payment of losses and expenses, and for other costs customarily borne by insurers under conventional insurance policies in Minnesota. Except as provided in part 2785.1100, subpart 3, item B, a pool must not borrow money or issue debt instruments. A pool may bring legal suits to collect delinquent debts. A pool must not obtain funds through subrogation of the rights of covered persons. A pool may receive funds only from:

- A. its members as premiums, assessments, or penalties;
- B. its insurers or indemnitors pursuant to insurance or indemnification agreements;
- C. dividends, interest, or the proceeds of sale of investments;
- D. refunds of excess payments;
- E. coordination of benefits with other insurance or group self-insurance coverages;
- F. collection of money owed to the pool;

G. the special compensation fund under Minnesota Statutes, chapter 176, for workers' compensation pools only; or

H. indemnification under Minnesota Statutes, section 176.181, subdivision 5, for workers' compensation pools only. Public/private pools are eligible for indemnification under this part only in the amount of the public members' liability to the pool.

Subp. 4. **Separate accounts.** A pool may establish separate accounts for the payment of claims or certain types of expenses. These accounts must be used only by the service company, its authorized subcontractors, or the financial administrator, as appropriate to the account's purpose. The amount in these special accounts must not exceed an amount reasonably sufficient to pay the claims or expenses for which it is established. All monetary and investment assets not in such accounts must be under the control of the pool's financial administrator.

Subp. 5. **Investments.** A pool's investments are subject to Minnesota Statutes, section 118A.04, as regards both permitted types of investments, maturities, and depositories. In addition, a pool must not invest in securities or debt of a member, or a member's parent, subsidiary, or affiliate; or any person or entity under contract with the pool. For this purpose, the state of Minnesota is not considered a political subdivision's parent or affiliate.

Subp. 6. **Monitoring financial condition.** The board must regularly monitor the pool's revenues, expenses, and loss development, and evaluate its current and expected financial condition. The board must attempt in good faith to maintain or restore the pool's sound financial condition, using any means at its disposal. These means include but are not limited to adjusting premium rates, underwriting standards, dividend rates, expulsion standards, and other powers granted in parts 2785.0100 to 2785.1600 and the bylaws. If the commissioner judges that the board's actions are inadequate to maintain or restore the pool's sound financial condition, the commissioner shall, as appropriate: order an increase in the premium rates; revoke the pool's self-insurance authority; or order that an assessment be levied against the members.

Statutory Authority: *MS s 471.617; 471.982*

History: *10 SR 274; L 1996 c 399 art 2 s 12*

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